

FINANCIAL TIMES

Start
the week
with...



Management
The business of
government
Page 8



Business Travel
Let the train
take the strain
Page 12



Today's survey
German banking
Separate section

World Business Newspaper <http://www.FT.com>

MONDAY JUNE 9 1997

The fifth part of
our 12-part series, FT
Mastering Finance,
appears today.
Topics include
foreign exchange,
shareholder value
and the takeover
premium.



Italy to sell third tranche of Eni shares

The Italian Treasury has launched its biggest flotation this year with the sale of a third tranche of shares in state-controlled oil and gas group Eni. The deal is worth about £10,000m (\$5.8bn). The Treasury plans to sell 1bn Eni shares, or 12.5 per cent of the company's equity, worth about £4,700m at current prices. The government said it might sell more shares if demand for the issue surged, but would retain control of the company. Page 16

Gazprom and Israel in talks: Israel and Russia's natural gas giant Gazprom are pushing forward with talks on a plan to construct a natural gas pipeline between Russia and Israel which could supply the Jewish state with up to \$500m of gas annually. Page 5

Promotions cancelled: Dai-ichi Kangyo Bank, Japan's second largest commercial lender, has cancelled the promotions of its prospective new president, Ichiro Fujita, and chairman Yoshiharu Mani. Page 16

Merger on course: Aerospatiale, the French state-owned aircraft, space and defence group, says its planned merger with Dassault Aviation would go ahead in spite of the election of a Socialist-led government. Page 17

Unknown Brazilian wins French Open

Unknown and unseeded Gustavo Kuerten, 20, became the first Brazilian ever to win a men's singles title at a Grand Slam tournament when he defeated twice-champion Sergi Bruguera of Spain 6-3, 6-4, 6-2 in a dramatic French Open final. "I didn't expect this to happen," said Kuerten, pictured, who beat defending champion Yevgeny Kafelnikov and 1995 winner Thomas Muster on the way to the final.

ABB efficiency drive: The Swiss-Swedish engineering group is to shed thousands of jobs in western Europe over the next five years to increase efficiency, cut costs and spread its manufacturing around the world. Page 17

Brussels opposes German move: The European Commission has expressed concern that a proposed German amendment to the EU's founding treaty would distort banking competition and make it harder to apply rules on state aid to public sector banks. Page 2

New IBM mainframes: IBM launches a new generation of G4 mainframe computers, built on low-cost chips, which it hopes will give a new lease of life to its flagship products. Page 17

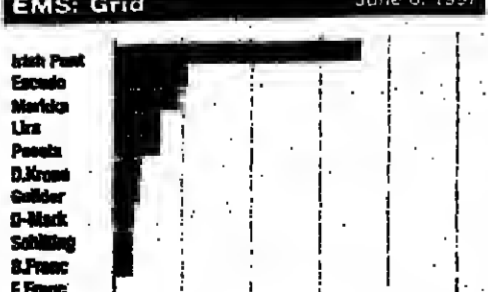
Swiss referendum results: Swiss voters overwhelmingly rejected a proposal to ban arms exports and decided the government did not need the citizens' permission to hold talks on joining the European Union. Page 3

Romania seeks investors: Romania is to bring in legislation to stimulate foreign investment and allow foreign portfolio investment for the first time. Page 2

World cup: Scotland beat Belarus 1-0 in their World Cup qualifier. Bulgaria beat Luxembourg 4-0. Sweden defeated Estonia 3-2 and Austria beat Latvia 3-1.

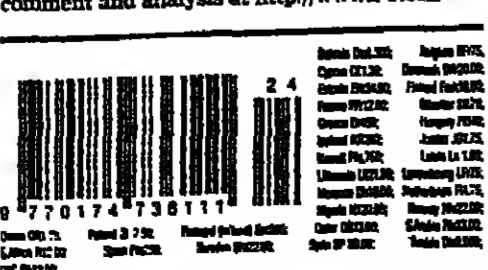
European Monetary System: The Italian lira was the biggest gainer from the weakness of the German D-Mark and the French franc last week. The franc remained anchored to the floor of the ERM grid, but the lira gained over half a per cent against its central exchange rate. Page 24

EMS: Grid June 6, 1997



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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France signals doubts over Emu

By Lionel Barber in Luxembourg

European leaders were struggling last night to keep their single currency and next week's Amsterdam summit on course after the new French government signalled second thoughts on both projects.

The first test in what could be a fateful week comes today in Luxembourg, where European Union finance ministers are reviewing the budget stability pact for monetary union, amid signals from the leftwing government in France that it will press for more emphasis on growth and employment.

In a further sign of trouble ahead, Mr Lionel Jospin, the new Socialist prime minister, has indicated his coalition government will not be rushed into signing an agreement at the Amsterdam summit in a week, despite the earlier commitment from President Jacques Chirac.

Amsterdam summit set for clash on Maastricht

Uncertainty over French policy has provoked alarm in other capitals because it coincides with a weakening of the authority of Chancellor Helmut Kohl's government in Bonn and renewed doubts about Germany's ability to meet the Maastricht treaty deficit criterion of 3 per cent of gross domestic product.

These doubts stem from the collapse of plans to revalue the Bundesbank's gold reserves in 1997 to meet the deficit target and infighting in the centre-right coalition over the 1998 budget.

The Dutch presidency will renew its diplomatic drive tomorrow with a visit to Paris by Mr Wim Kok, prime minister, to resolve differences over the intergovernmental conference (IGC), which is reviewing the EU's

Cook doubts on single currency... Page 6
Editorial Comment and Observer... Page 15
Lex... Page 16

Maastricht treaty. On Friday, Mr Kohl meets Mr Jospin and President Chirac in Pottiers in what is likely to be a critical Franco-German summit.

Several foreign ministries are suggesting that a crisis may be necessary to clear the air over Emu and the IGC, whose timely conclusion is necessary for the EU to begin preparations for enlargement to central and eastern Europe.

"One way or another, we are entering a decisive period," said an EU foreign minister attending the European Socialist parties congress in

Malmö, Sweden, at the weekend. Another senior EU diplomat agreed: "We may need a crisis to get to monetary union."

Behind the scenes, efforts are under way to avoid a breach between Bonn and Paris over the stability pact which governs budgetary discipline in the future euro zone.

EU leaders only agreed to the pact after marathon negotiations at a summit in Dublin six months ago which balanced German demands for near-automatic fines against fiscal delinquents with Anglo-French insistence on discretion to apply sanctions.

Mr Jospin - who says he is determined to stick to his election campaign promises - wants assurances that Emu's emphasis on price stability and budget discipline must be

accompanied by provisions to co-ordinate social and economic policies.

Mr Jacques Delors, former president of the European Commission, acting as a broker, has put forward the idea of a protocol to the stability pact which would draw on references in the 1992 Maastricht treaty to economic policy co-ordination. "All the treaty, and nothing but the treaty," he said.

The Dutch presidency and the European Commission remain hopeful that a clash can be avoided today in Luxembourg, with ministers reaffirming the timetable to launch the single currency on January 1 1999.

However, doubts are creeping in over the timetable for the IGC. One reason is that the French - with their insistence on stronger clauses in the jobs chapter and social policy - are moving in the opposite direction from the negotiations which are lowering ambitions in search of a compromise.



Banks to set up global forex payment system

By George Graham
in London

A group of leading international banks plans soon to set up a company to handle payments in the \$1,500bn a day foreign exchange market.

The Group of Twenty, which includes banks from Europe, the US, Canada and Japan, will meet in London next week and is expected to agree to incorporate, preparing for the creation over the next two years of a global settlement bank for foreign exchange.

The new venture could eventually serve as a holding company not only for the settlement bank, but also for other solutions to settling accounts in the foreign exchange market, such as netting systems.

That would help to resolve an argument over whether it should be based in London or New York, since it could have one leg in each city.

Financial regulators last year gave banks a two-year deadline to come up with a solution to the problem of settlement risk in the foreign exchange market, often known as "Herstatt risk", since the collapse of Germany's Bank-

haus Herstatt in 1974 with \$620m of unresolved foreign exchange trades.

Payment systems around the world are not all open at the same time and one bank may pay over billions of yen to a trading partner hours, or even days, before it receives the equivalent dollars in return.

The G-20 has been working on a system which would ensure that both sides of a foreign exchange trade are completed by simultaneously crediting and debiting the two banks' accounts, in a process they call "continuous linked settlement".

But many smaller banks have been suspicious of the G-20 banks' motives, fearing that they intended to use the proposed settlement bank to increase their dominance in the foreign exchange market.

By setting up a company, the G-20 will create a mechanism which can allow smaller banks into the project.

"Once incorporated, you can separate the complexity of project management, which

Continued on Page 16
New forex bank to cut risk, Page 4

Record dollar bond issuance set to continue

By Edward Luce
in London

A record level of dollar bond issuance is expected to continue over the next two weeks after a series of big ticket bond issues pushed total offerings to a new peak of more than \$14bn last week.

Large scale dollar-denominated bonds are planned by the Russian Federation, Venezuela, and Cesp, the Sao Paulo-based electricity company, in the next couple of weeks.

Bankers attributed the surge of dollar bond supply to the market's growing bullishness on US inflation and concerns about the stability of Europe's main currencies.

"Investors are taking the view that the US Federal Reserve is unlikely to raise interest rates at the next meeting in July," said one bond syndicate official. "This has opened a window for borrowers to saturate the market."

Among other jumbo bonds offered last week, Brazil, Toyota Credit, the Asian Development Bank and Ford Motors issued debt of US\$1bn or more. Other borrowers included the City of St Petersburg and the Republic of Moldova, both of which were tapping the international debt markets for the first time.

Analysis say that borrowers' preference for bonds denominated in US dollars

Continued on Page 16
Extreme, mainstream, Page 15

Ahern makes bid to form coalition

Inconclusive Irish election
produces hung parliament

By John Murray Brown
in Dublin

Mr Bertie Ahern, leader of the populist Fianna Fail party in the Irish Republic, was trying to form a government with other parties last night after Friday's general election produced an inconclusive result.

Mr John Bruton, prime minister in the Fine Gael "rainbow coalition", all but conceded defeat, acknowledging Mr Ahern had "a better chance of getting the majority when the Dail [parliament] meets".

Under the republic's complex system of proportional representation the vote produced a hung parliament with Fianna Fail holding 77 seats, and its right-of-centre allies, the Progressive Democrats, four. That left the combined strength of the two parties two seats short of the 89 needed for a majority (excluding the speaker).

The government fell well short, with Mr Bruton's Fine Gael on 54 seats, Labour 17 and the Democratic Left four. There will be 10 independents including two Greens, and a member of Sinn Féin, the political wing of the Irish Republican Army.

The result underlined gains for both traditional large conservative parties at the expense of smaller parties. Dublin voters who had backed the Labour party in 1992 appeared to have reverted to Fianna Fail and Fine Gael. Labour and the Progressive

Democrats blamed their poor showing on the presidential style of the campaign which had concentrated on the personalities of Mr Ahern and Mr Bruton.

Fianna Fail officials last night expressed confidence that two of the independents - former party members - could be persuaded to support Mr Ahern's nomination as prime minister. Mr Ahern can also expect the backing of Mr Caoimhghin O'Caolain, the lone Sinn Féin member of the Dail, who will be the party's first member to take a seat in the Dail after the party abandoned its abstentionist policy in 1996.

Mr Ahern said he would seek a meeting with Mr Gerry Adams, Sinn Féin president, before parliament meets, but he was emphatic that without an IRA ceasefire, he would not be courting Sinn Féin's support. The last ceasefire ended just over a year ago with a bomb attack in the Docklands district of London.

After a tense count which stretched over the weekend, Mr Dick Spring, leader of the Labour party and deputy premier in the Bruton government, attacked media coverage of the campaign. He singled out the media group headed by Mr Tony O'Reilly after an eve-of-poll front page editorial in his Irish Independent newspaper.

Tough horse-trading, Page 2
Editorial Comment, Page 15

Palestinian leader Yassir Arafat, left, met Egypt's president Hosni Mubarak in Cairo to discuss how to break the deadlocked Mideast peace process. Last night Israeli and Palestinian officials held their first discussion for 11 weeks on resuming peace talks frozen over a Jewish housing project in Jerusalem. Report, Page 16

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Ahern saddled with tough horse-trading

PM in waiting will have to rely on three independents, says John Murray Brown

Mr Bertie Ahern will need all his skills as a former trade union negotiator in forging a new Irish government if, as expected, he is endorsed as prime minister when the Dáil, the Irish parliament, reconvenes on June 26.

With no overall majority after Friday's general election, the coalition between his Fianna Fáil party and the small right-of-centre Progressive Democrats will need the backing of at least three of a maverick band of independent deputies to form a government.

Ireland has not had a single-party government since 1977, and every one since 1981 has required negotiation after polling was completed. But with independents holding the balance of power, the horse-trading this time could be particularly tortuous.

Mr Ahern at least has all the cards. Mr John Bruton, the outgoing Fine Gael prime minister, acknowledged yesterday that Mr Ahern had enough support to win the Dáil vote.

Meanwhile, Mr Fergus Finlay, Labour director of elections, said it was time for Labour and the Democratic Left, Fine Gael's partners in the outgoing "Rainbow" government, to rebuild their leftwing support with a spell in opposition.

For the Progressive Democrats, the "tight embrace" of Fianna Fáil, as one of their MPs described the electoral pact, may prove just as awkward in government. An earlier Fianna Fáil-PD coalition broke down in acrimony, triggering the 1992 election that saw Fianna Fáil go into government with Labour.

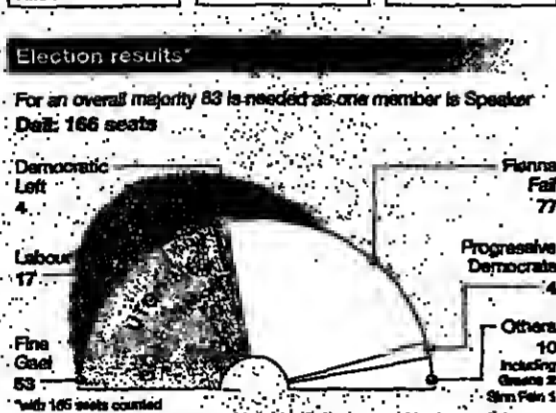
Mr Tim Fitz Coogan, the historian, said the very survival of the PDs as a separate party could now be in question, given that all but one of their four MPs are former Fianna Fáil ministers.

It is likely they will argue strenuously, as the Democratic Left did in the last government, for more than just one cabinet position, simply for the comfort of having a colleague as a witness at the cabinet table. But the PDs will not be in a position to dictate terms in the negotiations on formation of the new government.

Less easy to predict is which of the independents Mr Ahern is likely to favour. The group comprises two Greens, one Sinn Féin and a number of single issue candidates including one fighting to retain unlicensed television stations in the west of Ireland. Their support will come at a price.

It is an awkward choice. Mr Ahern can either formalise arrangements and bring the necessary independents into coalition or govern as a minority government, in the expectation that no single issue will unite the independents to defeat the government. Mr Ahern has indicated his own preference is for a minority government.

Ireland votes for change



He was involved in the negotiations for the short-lived 1983 Haughey government, which was sustained by support from the independent Tony Gregory and the Workers' party.

One possibility would be to bring in the two Greens, and one other. Some analysts believe Fianna Fáil could accommodate some Green policies fairly painlessly while paying lip service to larger ambitions such as pressing the British to close the Sellafield nuclear plant across the Irish Sea. But the Greens are said to be closer to Fine Gael and Labour.

Two of the independents - Mr Jackie Healy-Rae in Kerry South and Mr Harry Blaney in Donegal North-East - would be former Fianna Fáil officials. They could be expected to merge back into the party.

One idea being canvassed yesterday was that Fianna Fáil would bring in an independent bloc comprising Mr Healy-Rae, Mr Blaney and Mr Cavanagh O'Connell. Mr O'Connell will be the first Sinn Féin MP to take his seat in the Dáil since the party abandoned its abstentionist policy in 1986.

Mr Ahern has publicly stated he would not enter a formal coalition with Sinn Féin without a ceasefire by the IRA. Sinn Féin's military wing, but Mr Ahern said yesterday he would be seeking a meeting with Mr Gerry Adams, Sinn Féin president, before the vote on June 26. Northern Ireland unionists yesterday expressed disappointment at Mr Bruton's

Chirac adopts role as 'guardian'

By Andrew Jack in Lille and David Owen in Paris

President Jacques Chirac has promised to be a guardian of the country's institutions, values and status within a unified Europe, under the cohabitation with France's new Socialist-led government.

In his first public appearance since the defeat of his centre-right Gaullist movement on June 1, Mr Chirac said his duty was to ensure the preservation of "Republican values", including equality of opportunity, solidarity, and the country's social security system.

Speaking at a time when the European policy of the new government of Mr Lionel Jospin, the prime minister, remains a subject of uncertainty and concern, the French president said he wanted to preserve the status negotiated by France in Europe over the past 40 years, and to push further towards creation of a "united, strong and just" Europe.

He said he would fight throughout the world to ensure France maintained its position, assured its security, affirmed its influence and developed its share of world markets.

The president wanted to ensure the country passed smoothly into an era of high technology in order to create growth and full employment.

Addressing the 35th annual congress of the Mutualité Française, a powerful federation of mutual insurance groups, Mr Chirac appeared statesman-like but uncharacteristically sombre.

Commenting on the president's statement, Mr Jospin told *Le Journal du Dimanche*, a Sunday newspaper, that Mr Chirac was "saying exactly what the constitution says" by indicating he would be guardian

of the country's institutions. He pledged that he too would act "within the framework of the constitution".

In an interview published after a meeting on Saturday with Mr Jean-Luc Dehaene, the Belgian prime minister, Mr Jospin appeared to edge away from direct confrontation with Remait, the French carmaker, over its controversial decision to close a Belgian factory with the loss of 3,100 jobs.

He said that the move was "the company's responsibility". "Today, I am finding the dossier is very advanced," he said. "I am therefore doing my best to

look at what can be done."

The government's position may be made clear at the company's general shareholders' meeting tomorrow. The French state owns 46 per cent of Renault's shares and has five out of 14 board members.

Meanwhile, Ms Dominique Voynet, environment minister, said she had been given the go-ahead by Mr Jospin to scrap the controversial Rhine-Rhône canal project. Ms Voynet, the sole Green member of the Jospin government, said the decision to cancel was irrevocable. Flaws disfigure France's pyramid, Page 7

Federation of health insurance is lobbying hard against any reforms

French mutuals show staying power

By Andrew Jack in Lille

The Grand Palais in Lille is sealed off from the rest of the city on a traffic island encircled by busy roads. President Jacques Chirac could not have chosen a more appropriate venue for his first public appearance since he was isolated by the defeat of his centre-right party last week.

It was an equally suitable place to hold the 35th congress of the Mutualité Française, a federation which groups nearly 6,000 health insurance mutuals, and has been shielded by successive governments from the competitive pressures of commercial insurers as well as European legislation.

President Chirac agreed to address

the congress long before he was forced to add last-minute remarks about his role during cohabitation with the country's new socialist government.

It was no surprise that President Chirac decided to attend the closing session, even though two senior socialist politicians, Mr Martine Aubry and Mr Bernard Kouchner, cancelled their promised appearances after their nomination to the new government last week.

The Mutualité represents a powerful political lobby, providing "top-up" health cover beyond the level offered by the state social security system for 30m French public and private sector employees.

François Mitterrand, the late French president, assiduously

attended their gatherings and Mr Jean-Pierre Deval, head of the federation, was among the first to be granted a meeting with the newly-elected Jacques Chirac in 1995.

In search of allies, President Chirac also found comfort in the Mutualité, which claims to have masterminded the social security reforms launched under Mr Alain Juppé, the former prime minister.

At the same time, the Mutualité has the ability to find allies of all political colours, not only because of its size and diversity, but also because it appeals to the republican value of "solidarity" without adding a burden to taxpayers.

The Mutualité is a keen advocate of a universal health insurance scheme to cover the estimated

100,000 to 300,000 French citizens currently without protection.

At the same time, it has proved resistant to calls for its own reform. The French Insurers' Federation, representing commercial insurers, has long lobbied government and even resorted to the European Court in its battle to introduce a "level playing field".

It argues that the mutuals have a number of tax advantages - including exemption from local business rates. It also wants greater transparency in the accounting of the Mutualité - demanded by the EU - to reveal how profitable the federation is, and how far there are cross-subsidies between its insurance activities and the network of pharmacies and clinics it has established.

Romania eases path for investors

By Kevin Done and Anatol Liven in Bucharest

Romania is to bring into force later this week legislation to stimulate foreign investment and to allow for the first time foreign portfolio investment in the rapidly growing stock market.

The government overcame concerns at the weekend within the centre-right coalition about the dangers posed by speculative short-term capital inflows, and is introducing a relatively liberal regime which will include a basic 4 per cent capital gains tax for foreign portfolio investors.

The law, which will come into operation initially as an emergency ordinance until it gains expected parliamentary approval later this year, legalises foreign portfolio investment formally in Romania for the first time and allows the free repatriation of principal, capital gains and interest.

To encourage investors to make a long-term commitment, the government will also impose an additional penalty tax on capital gains repatriated in less than a year. This will be charged at the rate of 0.1 per cent per year for the remainder of the year on capital gains amounting to more than 25 per cent of the principal invested.

Western investment bankers said at the weekend that the capital gains tax regime should still prove attractive to foreign investors, and forecast that hedge funds and emerging markets funds could channel several hundred million dollars into the fledgling Romanian market.

The foreign investment law is the latest move in the far-reaching reform programme launched by the government of Mr Victor

Chorbea, prime minister, during the past six months. This has included steps to liberalise prices and the foreign exchange market, to accelerate privatisation, restructure industry and agriculture and drastically cut the budget deficit.

Mr Urm Spinescu, minister for reform, said the foreign investment law, was one of the most attractive in the whole of central and east Europe. It includes a range of incentives for foreign direct investment in greenfield site operations and for the acquisition of state-owned companies. Additional incentives are to be announced later in the summer for attracting investments to special economic zones in declining regions.

Under the new law greenfield investments of more than \$5m will pay a profit tax of only 15 per cent rather than the general rate of 38

per cent for up to seven years, and imports of plant and equipment will not be liable to customs duty. Duties on raw materials and components imports will be halved for up to five years.

The exact period for which incentives will be available will depend on how investors' projects meet criteria for investing in deprived areas, environmental and infrastructure improvement and export promotion.

The Romanian Development Agency said foreign direct investment in 1997 was expected to total between \$1.5bn and \$1.7bn, exceeding the cumulative investment made since the collapse of communism in 1989 to 1996. Foreign direct investment was \$270m in the first 4 months.

Mr Spinescu said privatisation of the first two state banks, the Romanian Development Bank and Banc Post, should be completed by March, and the government was assessing tenders for the appointment of financial advisers for the landmark privatisation of a 30 per cent stake in Romtelecom, the telecommunications utility in a deal that could be worth between \$1bn and \$1.5bn.

The fledgling stock market is expanding rapidly, although it is still marked by poor liquidity and volatile prices. The Bucharest stock market, launched in November 1995 with seven stocks, achieved a higher trading volume on one day in April than in the whole of 1996.

Some 40 stocks are now traded and this is expected to rise to between 70 and 80 by the end of the year. The combined index for the Bucharest stock exchange and the Rasdaq over-the-counter market rose by 73 per cent in US dollar terms in the three months to the end of May.

German banking move opposed in Brussels

By Andrew Fisher in Frankfurt

The European Commission has expressed concern that a proposed German amendment to the European Union's founding treaty would distort banking competition and make it harder to apply rules on state aid to public sector banks.

A paper drawn up by the Commission and circulated

to EU governments says the amendment - seeking to enshrine the guarantee status of public sector banks in European law - could also be used by other member states to exclude their public sector banks from competition rules.

This would become "even more crucial" once European monetary union began and competition in the financial sector was opened

up. The precedent set by the German protocol, presented to the intergovernmental conference on treaty changes, could easily be extended to other public service companies.

The German proposal is one of several by EU countries aimed at excluding whole economic sectors from competition rules. France has tabled proposals to protect public services

such as gas and electricity, while Belgium wants the same treatment for public service broadcasters.

These will be discussed by the IGC conference, which ends its work at the Amsterdam summit next week. Bankers said the UK, Scandinavian countries and Italy were among those objecting to the German protocol. But the treaty proposals, for which approval must be

unanimous, will be the subject of much horse-trading.

The Commission says the German amendment, if successful, could be extended to cover banking cases in Italy, France (such as Crédit Lyonnais) and other EU members. If state support were given in guarantee form, the Commission could no longer deal with them. German Banking Survey, Separate Section

Czech government troubles come to a head

After the worst few weeks of his political career, Mr Václav Klaus, the Czech prime minister, faces a make-or-break decision tomorrow when his shaky government asks parliament for a vote of confidence.

Mounting economic and political problems, which have pushed the Czech Republic to the brink of a recession and necessitated a *de facto* devaluation of the koruna, have badly damaged Mr Klaus's standing with voters and the markets, but he has so far rebuffed calls for his resignation.

However, with just 100 of parliament's 200 seats, Mr Klaus is not certain to win tomorrow's vote, which he called himself in a rare display of decisiveness. Yet, though he is blamed for creating the recessionary climate, he is seen by both the public and the markets as the best man to steer the country through the storm.

Not even Mr Milos Zeman, leader of the main opposition Social Democrats, wants an early election, even though his party is riding high in the polls. Mr Zeman does not want to have to introduce the austerity measures the Czech electorate will have to swallow in the next two years.

As one political observer put it "even the alternatives to Klaus think there is no alternative at the moment".

However, Mr Klaus cannot be certain of support from the Christian Democrat faction in his government until after an emergency cabinet meeting today that will flesh out details of belt-tightening measures he said would be taken to back up the decision by Czech National Bank's two weeks ago to float the koruna.

Mr Klaus announced the broad outlines of the austerity measures following a wave of speculative

attacks on the koruna on foreign exchange markets. He also admitted that "mistakes" had been made in the past two years, during which the government has faced intense criticism for failing to follow through with reforms after the completion of the voucher-for-shares privatisation drive.

Mr Klaus is now making a belated attempt at further reforms, in difficult circumstances that are largely self-imposed. His cabinet is riven by personality clashes and a breakdown in communication among senior personnel. Last week Mr Josef Lux, head of the Christian Democrats, accused him of failing to alert ministers to a warning from the International Monetary Fund that the koruna was vulnerable to attack.

The currency subsequently plunged on foreign exchange markets, and brought Mr Klaus's

political crisis to a head. The central bank also raised interest rates to unprecedentedly high levels to bolster its defence of the koruna. Pressure is now mounting for rates to be lowered, but the central bank is unlikely to do so until the government tightens fiscal policy.

Foreign exchange markets have been extremely nervous in recent days ahead of the vote because of fears that if Mr Klaus loses, the austerity package will not be pursued.

Mr Lux, on whom Mr Klaus relies for survival, has become the prime minister's most prominent critic in recent weeks, exposing the government's disarray. His lukewarm support for the prime minister will continue to cloud the government's future even if he backs the confidence vote this week.

The Christian Democrat leader

said on Friday his party would side with the prime minister. "We are confident the government can fulfil its stabilisation and recovery programme. If we were not we would already have left the coalition," Mr Lux said.

But before guaranteeing support tomorrow Mr Lux wants a clear idea of the scale of the austerity measures, which include a public sector wage freeze.

If the Christian Democrats agree to back Mr Klaus, his government's fate in parliament rests on the voting intentions of two disaffected members of the opposition, who are technically independent after being expelled earlier this year from their party. If they abstain, Mr Klaus is safe, at least until the next crisis erupts.

Markets: Prague faces stormy summer, Page 23



Klaus: not certain to win tomorrow's vote

The bottom line...

Shane Curran, Director, GT Global.

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Ralston to withdraw candidacy for joint chiefs of staff chairman as pressures mount to end double standards

Adultery ends bid for top US military post

By Gerard Baker
in Washington

The air force general who was in line to be the next chairman of the US joint chiefs of staff is expected to withdraw his name from consideration for the top military post today, following his admission that he committed adultery.

Gen Joseph Ralston, now vice-chairman of the joint chiefs, had initially said he would continue to contest

the nomination after his revelation last week of an extramarital affair in the 1980s.

However, as congressional leaders yesterday increased pressure on him to step down, news organisations reported that he had decided to withdraw his nomination when he meets Mr William Cohen, the defence secretary, today.

Politicians yesterday warned that, if he did not withdraw his nomination, Gen Ralston would face seri-

ous difficulties in his fight for confirmation on Capitol Hill.

Rep Steve Buyer, Republican chairman of the House military personnel subcommittee, said: "I believe there's been such a cloud created in this climate as we're looking into the issues of sexual misconduct that it would be very difficult for him to be confirmed before the US Senate."

But though the Pentagon yesterday denied any deci-

sion had been made by the general, the New York Times and Washington Post both cited officials close to him saying he had made up his mind to pull out.

The general's decision represents a serious blow to Mr Cohen, who had forcefully backed Gen Ralston's candidacy.

Mr Cohen was criticised by members of Congress for double standards after other less senior officers had been forced to step down in recent

weeks following their admissions of adultery.

Two weeks ago Lt Kelly Flinn, a bomber pilot, was discharged from the air force after she admitted an adulterous relationship with an enlisted woman's husband, lying to her superiors about it, and disobeying an order to desist. Last week, the commander of the army's Aberdeen proving ground, retired at a lower rank after acknowledging he had an affair.

Though Gen Ralston's offence - an affair with a civilian woman while he was separated from his wife in the 1980s - was regarded as much less serious than those of the other officers, senior politicians expressed concern at the apparent double standards implied if the general had been allowed to accede to the top post in the armed services.

In an attempt to limit the continuing damage to the military from the mush-

rooming revelations of sexual misconduct involving not just adultery but sexual harassment and rape, Mr Cohen

meanwhile announced at the weekend a Pentagon review of its rules on social and professional conduct among the military.

Mr Cohen acknowledged that recent cases had created "perceptions that our system is inconsistent" and that this could "damage the morale of our troops."

US and Japan revise pact

By Gerard Baker

The US and Japan agreed in principle at the weekend on a new expanded military role for Japan within the framework of the two countries' security treaty.

At talks between senior military officials in Hawaii, the two sides agreed that the new role could include use of Japanese airfields by US aircraft in a conflict, Japanese involvement in mine-sweeping and intelligence gathering and an expanded peacekeeping role for Japanese forces.

US officials hailed the agreement as a significant step forward by Japan towards a more active role in security in the Asia-Pacific region.

"This is the first time Japan is looking to do more than in the past," Navy Lt Commander Karen Jeffries said after the meeting. The new framework for an extended Japanese role was included in an interim report prepared after six months of negotiations to review the 1978 "Guidelines for Defence Co-operation". These guidelines lay out the part Japan agrees to play in defence co-operation under the 1960 US-Japan security treaty.

The final report, to be published in November, will give details of the expanded Japanese role, such as how many air bases US aircraft will be allowed to use in any future conflict in the region.

US officials sought to play down the risk that other countries in the region might be concerned about the new Japanese role. Officials yesterday flew to Beijing and other capitals to explain the agreement and to ease any Chinese worries about a larger Japanese military presence.

The agreement appears to stop short of some of the bolder measures the US had been hoping for from Japan, such as Japanese participation in a limited way in active US operations in Asia.

INTERNATIONAL NEWS DIGEST

Swiss reject arms export ban

A large majority of Swiss voters yesterday rejected a ban on exports of Swiss arms and dual-use goods. The Socialist party referendum had come at a sensitive time for Switzerland, a neutral country, whose international image has been damaged by recent revelations that the bulk of its arms exports in the second world war went to Germany.

Swiss manufacturers mounted a strong campaign against the proposed ban, which directly threatened nearly 6,000 jobs and over 100,000 indirectly. These arguments appear to have swayed voters in a country where unemployment is at its highest level since the 1930s.

William Hall, Zurich

Tudjman peace train stoned

Croatian President Franjo Tudjman yesterday called for reconciliation and forgiveness between Croats and Serbs, but his "train of peace" was stoned by a mob on return from the devastated city of Vukovar.

Mr Tudjman spoke to some 1,000 people, mostly Croats from all over the country who came with him on the train. He stood in front of Vukovar's 120-year-old blasted railway station, symbolising the destruction of the city in the 1991 Croatian war.

The gathering was secured by United Nations soldiers, who patrol and administer the mainly Serb region before it returns to Croatian rule next month. A group of 20-30 men stoned the train as it was leaving Vukovar, breaking at least seven windows, witnesses said.

Tudjman is facing re-election on June 15, and the train of peace is a central part of his campaign. He is tipped to win easily on the back of his popular reputation as the man who created independent Croatia. *Reuters, Zagreb*

Indian party to choose leader

India's Congress party members are today expected to elect incumbent Mr Sitaram Kesri as party president in the first contested leadership poll in more than 40 years. Mr Kesri's election will end several months of uncertainty for the party which has governed India for most years since independence nearly 50 years ago.

Mr Kesri took on the top job after Mr P.V. Narasimha Rao, the former Congress prime minister, stepped down over corruption scandals following Congress's rout in last year's general election. In today's poll, Mr Kesri, who has played down his age - he is 79 - and highlighted his role as a "freedom fighter", will face Mr Rajesh Pilot, a former Congress minister who is appealing to the party's youth wing, and Mr Sharad Pawar, an ex-chief minister of Maharashtra state, the country's commercial heartland.

The Congress election is the first of a trio of summer polls. The Janata Dal, the main component of the ruling United Front coalition government of Mr L.K. Gujral, prime minister, elects a leader in a fortnight, while next month members of parliament elect the country's 10th president.

Khazem Merchant, New Delhi

Afghan peace moves backed

General Abdul Malik, who took over control of the Afghanistan National Islamic Movement from General Abdul Rashid Dostum two weeks ago, yesterday said he welcomed moves by Pakistan to establish peace in his country.

Pakistan last week attempted to resuscitate an agreement between the Taliban, Afghanistan's governing Islamic group, and Mr Abdul Malik's movement. Signed two weeks ago, the pact briefly left the Taliban in control of the north before northern forces turned on them, killing up to 500 Taliban in the streets of Mazar-i-Sharif.

The original deal had called for all factions to co-operate in implementing an Islamic state in the north while allowing the region to retain its autonomy.

Mr Abdul Malik defended the original deal, and said: "Afghanistan is an Islamic country. We want the Sharia to be enforced in all parts of the country. However, we don't want the kind of society which the Taliban are trying to create."

The general explained what had gone wrong with the agreement. "The Taliban were not to interfere with the northern areas of the country but instead they tried to disarm us. They brought in 21 pilots to transfer our planes. They brought in tank crews to take away our tanks."

Charles Clover, Paktia-Khanj, Afghanistan

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El Niño set to bring havoc to Peru's economy

By Sally Bowen in Lima

Peru's gross domestic product, which is only just recovering following a disappointing performance in 1996, could be severely curbed by a new threat: the warm Pacific current known as "El Niño" (the boy-child) which produces unpredictable climatic changes.

Although it is too early to forecast its intensity, drought and flooding produced by the Niño in 1983 brought havoc to agriculture and the fishing industry, causing a 12 per cent slump in Peruvian output. Losses were officially estimated at \$650m in northern Peru and southern Ecuador, and another \$260m in southern Peru and western Bolivia. Worldwide, Niño's 1993 damage was estimated at \$52n by an international committee of scientists which monitors its effects.

For several weeks, unusually warm seas between Tumbes in the north and Pisco in the south have led Peruvian fishermen to suspect that the Niño is once again displacing the normal cold Humboldt current. Peru's meteorological service, Senamhi, has confirmed that early June ocean temperatures are as much as 4 degrees centigrade above normal. At the same time, land temperatures are unusually high for the time of year and the winds have inverted.

Meteorologists are already predicting heavy rain in the north of Peru and drought in the south. Apart from the obvious effects on agriculture and potential damage to coastal towns, the infrastructure including roads and bridges has not been constructed to cope with rain. Energy output will also be affected as a large proportion of Peru's electricity is hydro-generated.

Meanwhile, the small boats which make up the bulk of the Peruvian fishing fleet must travel further and at greater cost to catch less. The anchovy and Pacific sardine which are the raw materials for Peru's important fishmeal industry (responsible for about 15 per cent of all \$60n-plus export earnings) will dwindle.

The full effect of the Niño are usually felt around Christmas - hence its name. Senamhi chief Gen Jose Ames Ruiz said its appearance at this time of year was not normal and that precautions should be taken.

Niño's arrival coincides with signs that the Peruvian economy appears to be back on track for growth after the 1996 slowdown. GDP expanded 7.5 per cent in the first four months of this year with output up 13.4 per cent in April alone. Fishing and fishmeal output contributed substantially to the figures.

Many investment banks have recently revised their GDP estimates upwards, predicting 1997 growth at anything between 4.7 per cent and 6.5 per cent. If Niño does in, however, they may have to think again.



Holbrooke: he views the stakes in his new assignment as potentially even higher than they were in former Yugoslavia

community, and Mr Rauf Denkash, the Turkish Cypriot leader. He had "no expectations" over the timing of moves towards a settlement, and was also keeping an open mind about how he would divide his time between banking and diplomacy.

His appointment has been wel-

comed by all sides, including Britain, whose special envoy Sir David Hannay who has been the driving force behind peace efforts in recent months. "There was something missing in the equation before now," said Sir David, who has often acknowledged that his own chances of success would ultimately

High stakes in Cyprus initiative

Richard Holbrooke tells Bruce Clark of hopes for Athens-Ankara reconciliation

depend on high-level US support.

Mr Holbrooke's message that the stakes in the dispute are high has been echoed by the Greek Cypriot government - with the ominous rider that there is no particular reason for optimism. "If negotiations collapse, it will erode faith in the negotiating process and give an opportunity to hard-liners on both sides to gain advantage," said Mr Ioannis Kasoulides, the Cypriot foreign minister.

On a visit to Washington, the minister said his government would approach the July meeting "with an open mind, having the political will to be constructive and positive" although it would have preferred to wait for some narrowing of the gap between the two sides.

He reaffirmed that his government would go ahead early next year with deploying Russian-made anti-aircraft missiles if there was no settlement. Turkey has threatened a pre-emptive strike if the missiles are installed. Negotiators are hoping the July meeting will put the two sides on an irreversible path towards reuniting the island as a loose, bilateral federation - a goal to which both sides are theoretically committed.

This would put an end to the armed standoff which has persisted since 1974, when Turkey overran the northern third of the island, and forced a population exchange, after an abortive, Greek-backed coup d'état. Moves towards a settlement have acquired added urgency because of the prospect of Cyprus starting negotiations to join the European Union. Mr Denkash has said EU accession without his consent could lead to renewed war.

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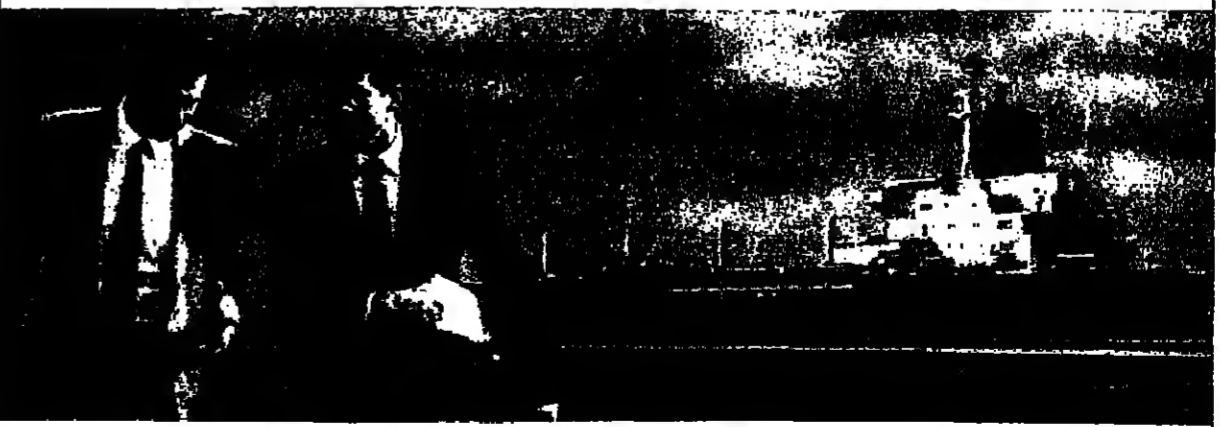
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NEWS: INTERNATIONAL

US envoy secures refugee pledge by Kabila

The US envoy, Mr Bill Richardson, left Congo - formerly Zaire - yesterday after a mission largely dedicated to persuading the country's new president, Mr Laurent Kabila, to respect human rights and show concern for refugees, Reuters reports from Kinshasa.

Mr Richardson, Washington's ambassador to the United Nations, said he secured pledges from Mr Kabila to assist a UN mission to examine evidence that his troops massacred Rwandan Hutu refugees, and to prosecute anyone who broke the law.

"Mr Richardson pointed out that if they want a new start they have to have the kind of image that allows other governments to work with them," said a senior US administration official with the envoy.

Mr Kabila's takeover last month as president of Africa's third largest country, after a seven-month bush war, has been coloured by reports that his soldiers have been systematically killing ethnic Hutu refugees in areas they control.

Speaking at a transit camp for Rwandan and Burundian Hutu refugees, near the eastern city of Kisangani, Mr Richardson said that reports of widespread killings continued.

"All of us, the new government of the Democratic Republic of Congo, its neighbours and the international community, have the responsibility to stop the killings of innocent civilians," Mr Richardson said.

Mr Kabila's Alliance of Democratic Forces denies massacres took place. An earlier mission to investigate reported massacres was obstructed by Mr Kabila's soldiers - many of whom are ethnic Tutsi whose origins lie in Rwanda.

"We are delighted that President Kabila has made this declaration and we are looking forward to its implementation on the ground, which of course is essential," said Mr Pierce Gerety, UN regional humanitarian co-ordinator.

The refugees are the rump of over a million who fled Rwanda fearing reprisals in 1994 after Hutu hardliners slaughtered hundreds of thousands of minority Tutsis.

The UN refugee agency says some 816,000 have returned home since last November, while 46,000 have been found and about 250,000 remain unaccounted for.

BIS weighs expanded role

By George Graham, Banking Correspondent

Central bank governors gather in Basel today for the annual meeting of the Bank for International Settlements, the central bankers' central bank.

The meeting is the first since the BIS opened its membership to nine new central banks from emerging markets such as Russia, China, Brazil, Mexico and South Korea.

The expansion of what was previously a club for industrialised and mostly European central banks is just the latest in a series of metamorphoses for the BIS.

In the 1930s, the BIS served as a bank for war reparations. After the second world war, it turned into a financing vehicle for the Marshall Plan. Later, before creation of the European Monetary Institute (Emi), it became the chief forum for EU central banks.

With European monetary union scheduled to begin in 18 months, that role is now in question. The logic of having the Emi provide 12 of the BIS's 17 directors must, once the Emi has become the European Central Bank, become even

shakier than it is today.

Broadening the membership is a first step towards dealing with this issue. Yet even without Emi, the expansion and rising interdependence of the world's financial markets have compelled the BIS to adapt.

"With the globalisation of finance and the globalisation of central banks' interests and concerns, the BIS needs to become a more global institution, both in members and in functions," said Mr Andrew Crockett, the organisation's general manager, in an interview last week.

Pinning down what the BIS does is not straightforward. In much of its work, and arguably the most important part, it functions as a secretariat, providing governors from the world's principal central banks with a venue and documentation for their monthly meetings.

Besides current monetary and economic policy conditions, the BIS also seeks to throw central bankers' minds forward to more general issues that could affect them in the future, such as the development of electronic money.

Beneath the governors, the BIS acts as host to more specialised committees. The

best known, referred to simply as the Basle committee, is the committee on banking supervision.

In 1975, the committee established the original Basle Concordat, in which bank supervisors from the Group of Ten leading industrial nations agreed how they should divide responsibility for banks whose activities crossed national borders, and in 1988, it added a set of standards for capital adequacy which have become internationally accepted as the Basle ratios.

Last year it stretched its remit beyond the G10 with its "Core Principles on Effective Banking Supervision," which are expected to be adopted by bank supervisors worldwide in September.

Similarly, the committee on payment and settlement systems has co-ordinated central bank efforts to reduce or remove the financial risks that have built up almost unnoticed in the plumbing of the world banking system.

Mr Crockett insists the standards developed in these areas are not the BIS's, but those developed by national experts under the BIS's umbrella.

"We see our role as a facili-

tator of joint action among central banks, rather than as an actor," he said.

Nevertheless, the BIS remains a bank, with a substantial balance sheet of its own and around 7.5 per cent of the world's gold and currency reserves. Besides accepting deposits from central banks, it has used its resources in the past to provide short-term funding, for example during European exchange rate mechanism crises or, more controversially, during the Mexican financial crisis in 1995.

The BIS's gold bullion holdings alone are estimated to be worth around \$11bn at market prices, although, unlike the German and Swiss members, it has no plans to revalue its reserves.

That gold has opened the bank up to unaccustomed scrutiny in the past year, as questions emerged over the origins of gold it received from the Nazi Reichsbank in the second world war. While the BIS returned some gold which was clearly looted immediately after the war, it held on to some which, though not clearly looted, was not of clearly impeccable origin. It has now decided to open its archives in early 1998.

New forex bank to cut risk

By George Graham

Some of the world's biggest banks meet in London next week to lay the foundations for a global settlement bank for the \$1,300bn a day foreign exchange market.

If they are successful, the self-styled Group of Twenty will have answered the challenge made to them last year by the Bank for International Settlements (BIS), the Basle-based grouping of leading central banks: to come up with an industry answer to the problem of foreign exchange settlement risk, or see a solution imposed by the central banks.

Foreign exchange settlement risk is often known as Herstatt risk, after the Cologne private bank whose collapse in 1974 first made the problem apparent.

Herstatt was active beyond its size in the foreign exchange market, and when it failed, it was in the middle of \$620m of uncompleted trades. It was shut down after it had received D-Marks for these trades during German payments hours, but before the New York payments system was open for it to pay over the corresponding dollars.

Since then, the foreign exchange market has ballooned, and the estimated \$1,300bn a day of turnover represents \$2,600bn a day of payments, since each trade

involves the exchange of the same sum in two different currencies.

But the BIS's Orange Book last year made it clear that the problem was not just one of time zones. Rather than \$2,600bn of payments which might be in doubt for a few hours, the BIS report found that banks were in most cases on the hook for two or more days before they were sure that their money had arrived, multiplying the risk to the international financial system several times.

This gigantic potential exposure is now getting serious attention, even if the

completed, on the wing.

The Orange Book has also given a boost to netting, a process by which banks agree to offset the gross amounts they owe each other, settling up with a much smaller net amount.

FXNet, which was set up in 1984, provides an automated system for netting bilaterally between its member banks. It now claims to handle around 13 per cent of the world's foreign exchange trading flows, and says it is eliminating \$90bn-\$100bn a day of foreign exchange settlements from the world's payments systems, a reduction of 51 per cent in settlement risk.

Echo, which started up in 1995, goes further by offering multilateral netting: members transfer their trades to the Echo clearing house and settle up with a single payment at the end of the day.

A North American rival, Multinet, also offers multilateral netting but has not yet gone into operation. But although multilateral netting may reduce settlement risk by more than 80 per cent, it does not eliminate it altogether.

That is the aim of the G20, which has been working on

the establishment of a global foreign exchange settlement bank. It would ensure both sides of a foreign exchange trade are completed by simultaneously crediting and debiting the two banks' accounts, in a process called "continuous linked settlement".

These solutions to the problem of foreign exchange settlement risk are not an either/or proposition. At best, the G20 settlement bank will take at least another two years to set up, so there is an immediate gain in adopting a netting system. And even if the settlement bank is created, there are advantages in using it to settle payments that have already been reduced by a netting system.

In practice, most leading banks are involved in at least two of the projects. Chase Manhattan, for example, is not only a member of the G20 and Multinet, but has also been promoting an idea for eliminating settlement risk by changing the way currencies are traded: since as much as 95 per cent of foreign exchange volume is in fact banks managing their positions, instead of exchanging two full payments, banks would deal in "contracts for difference", setting only the net amount by which the relative values of the two currencies have moved.

World accounting wins more converts

By Jim Kelly in London

Last week was a good one for Sir Bryan Carsberg, the former UK fair trading regulator, entrusted with the job of trying to get the world's leading stock market regulators to agree on a common financial reporting language for listed companies.

The reforms, which would allow up to 4,000 of the world's leading companies to list in New York, Toronto, and Tokyo using international accounting standards, are beginning to generate considerable momentum.

Within the last week the International Accounting Standards Committee (IASC) - the body Sir Bryan leads as secretary general - has won backing from China and accountants in 22 Arab nations as well as powerful encouragement from the New York Stock Exchange.

The committee is due next year to present a core set of standards to Iosco - the club of the world stock market regulators - for formal endorsement.

Many markets, such as the London Stock Exchange, already accept accounts presented under international accounting standards. But the great prize of Iosco endorsement will be the implied backing from the three countries still resisting the standards - Canada, Japan, and above all the US. At the moment companies have to convert their

accounts into the local code - which entails large added costs - and more importantly confuses analysts and shareholders over corporate performance while decreasing the efficiency of internal financial management.

The listing requirements in the US - including conversion of accounts to US Generally Accepted Accounting Principles (GAAP) - are seen by some as a barrier to companies seeking US capital and a restriction on the options open to US investors. To secure worldwide recognition the committee needs the backing of the US Securities and Exchange Commission - which has a seat on Iosco. There has been opposition to the Iosco project in the US - significantly from the US Financial Accounting Standards Board.

It has argued forcefully that the new code may not be good enough to protect investors. It has also criticised the committee's due process and independence and has doubted whether standards of sufficient quality can be produced on time. Its critique carries great weight.

But speaking in London last week Mr James Coburn, senior vice-president at the New York Stock Exchange, said the Iosco project stood a "pretty good chance of success". He said the code could eventually be available to 3,000-4,000 big

global companies "unless we get really unlucky".

He acknowledged that SEC endorsement of the new code was not a foregone conclusion and might hinge on the make up of the commission in 1998. Its current chairman, Mr Arthur Levitt, is perceived as a supporter of the Iosco project, but may not seek a further term of office in 1998.

Mr Coburn went on to criticise two US groups which have figured prominently in the opposition to the Iosco project. He said US accountants were against the reforms because they threatened their own financial code, and some favoured foreign companies buying into the US GAAP to raise capital in New York.

Meanwhile, the IASC is preparing for a crucial meeting in Beijing at which a number of standards must be finalised in order to meet the Iosco deadline. It has announced that China has become an observer member of its board - an indication that Beijing believes the new code will provide assurance to inward investors.

The Arab Society of Certified Accountants has backed adoption of international accounting standards in 22 countries after a meeting in Dubai, Sir Bryan said. "The Dubai declaration represents a giant step toward worldwide comparability and reliability of corporate financial reporting."

World pharmacy drug purchases January-March 1997 (\$m)

	US	Japan	Germany	France	Italy	UK	Spain	Canada	Belgium	Other
Cardiovascular	2,948	1,788	918	967	490	341	266	246	101	88
Anticancer/chemotherapy	2,827	1,596	801	601	340	340	193	153	69	97
Central Nervous System	3,104	596	446	513	238	284	172	182	79	59
Anti-infectives	1,881	1,287	327	470	370	119	163	83	65	32
Respiratory	1,740	800	414	382	210	248	153	100	57	85
Musculo-skeletal	600	680	166	175	127	103	59	42	22	15
Genito-urinary	1,007	1,163	225	266	106	100	44	53	21	27
Others	2,472	3,059	867	292	385	231	198	156	63	64
Total	16,372	9,679	3,706	3,006	2,266	1,789	1,248	896	476	467
% change	11	6	-3	5	5	5	6	10	2	1

* Changes exclude currency movements

** Includes hospital-dispensed drugs

Source: IMS International

US market ahead in growth of drug sales

By Michael Peel

First-quarter retail drug sales in 10 of the world's biggest markets rose 7 per cent compared with the same period last year, according to drug industry market researchers IMS International.

Growth in the US outstripped that in Japan and Europe. Sales in the US increased 11 per cent to \$18.4bn, while sales in Japan and Europe rose 6 per cent and 3 per cent respectively to reach \$10bn and \$13.8bn.

The four biggest US categories by retail value all enjoyed double digit growth. Central nervous system drugs, which include Eli Lilly's Prozac, grew 16 per cent to \$3.1bn, overtaking cardiovascular drugs, which grew 10 per cent to \$2.95bn, as the biggest selling category.

Purchases of anti-infective drugs, which grew 20 per cent to \$1.89bn, recorded the steepest rise, partly due to a

particularly severe outbreak of influenza during the first three months of the year.

Revenues from anti-infective sales also rose in Japan - up 10 per cent to \$1.29bn. However, the fastest growing sector was respiratory drugs, where sales jumped 26 per cent to \$800m, making it the country's fourth largest drug sector by sales value. This rapid growth was attributed mainly to increased incidences of pneumonia, a respiratory disease, in February and March.

But the IMS also said the pharmaceutical industry in Japan "will face tough operating conditions for the years to come" amid health-care cost-cutting.

The IMS said future growth would be restricted by increases in patient co-payments for medical care, higher charges for visits to the doctor by the elderly and fees for prescription drugs. The organisation's five-year strategic view of the world's

biggest markets predicts that the lowest annual growth rate - of 3 per cent - will be in Japan.

Meanwhile, France continued to extend its lead over Germany as Europe's top retail pharmaceutical market. Its first-quarter revenues increased 5 per cent to \$3.8bn, while sales in Germany fell 3 per cent to just under \$3.8bn.

Sales of cardiovascular and metabolic treatments, Germany's two biggest markets, fell by 3 per cent and 4 per cent respectively to \$920m and \$800m as German doctors found their budgets tightened.

The IMS said healthcare reforms would continue to reduce purchases in France and Germany compared with sales in other European countries. It predicted a growth rate over the next five years for France and Germany of 4 per cent, compared with 8 per cent in the UK and 9 per cent in Spain.

Clinton to hear union fears on globalisation

By Robert Taylor, Employment Editor

Trade union leaders from the world's leading industrial nations meet President Bill Clinton in Washington today to urge him to develop a "genuine social dimension to globalisation" at next week's summit conference of the Group of Seven countries in Denver.

The trade union delegation, which represents 68m workers in the 27 advanced countries that belong to the Paris-based Organisation for Economic Co-operation and Development, will also warn Mr Clinton that governments must co-ordinate their economic policies by giving a higher priority to stimulating "sustainable growth and employment".

Unions also want G7 countries to commit themselves to introduction of "common rules covering global financial markets" including a global tax on foreign exchange transactions; investment in infrastructure projects, making a "reality for all" in education and training; and a "guarantee" of "workers' rights in trade and investment agreements through well defined and enforceable labour standards".

The union delegation will also tell Mr Clinton it wants to see the encouragement of co-operation between employers, workers and trade unions in "forging high-quality workplaces that restore balance in labour markets and allow

workers to share in the fruits of productivity growth".

Finally, the unions favour a new debt relief initiative for heavily indebted poor nations and an increase in development assistance.

"Governments, central banks and employers must

accept their responsibilities in partnership with workers to enhance growth and employment and unify their efforts to manage the evolution of the market economy," the unions argue in a joint declaration they have sent to Mr Clinton and other heads of government.

The correct response to globalisation "must be to manage change", say the OECD trade unions. They want "effective governance" at local, national, regional and global level. "The pressures of global markets have to be balanced by a social dimension," they add.

International Islamic Capital Market Conference '97

The Securities Industry Development Centre (SIDC) of the Securities Commission (SC) is organising its second International Islamic Capital Market Conference, carrying the theme, "Developing Islamic Capital Market Instruments".

Topics to be covered are as follows:-

- Issues pertaining to the implementation of the *fiqh muamalat* concepts such as *Dha' Wa Ta'ajil*, *Bai' Ul-Ma'dum*, *Bai' Ul-'Inah*, *As-Suyulah* and *Al-Ijarah* and their role in developing and structuring instruments in the Islamic capital market
- case studies of Islamic instruments which have been issued in Malaysia which include the Islamic Revolving Underwriting Facility (IRUF), Islamic Benchmark Bond, *Al-Ijarah Financing (Sukuk)* and *Bai' Bithaman Ajil* financing with notes issuance (*BaiDS - Bai' Bithaman Ajil Islamic Debts Securities*).

Date : 15 - 16 July, 1997

Venue : Istana Hotel, Kuala Lumpur

Fee : RM650 per participant

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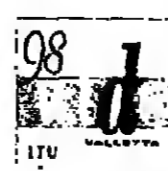
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Israel in pipeline talks with Gazprom

By Christia Freeland
in Moscow and Avi Machlis
in Jerusalem

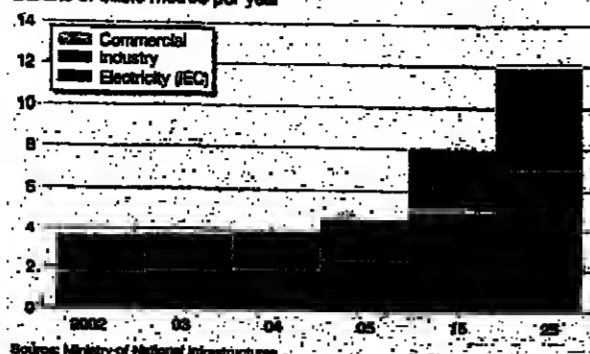
Israel and Gazprom, Russia's natural gas giant, are pushing forward with talks on a plan to construct a natural gas pipeline between Russia and Israel which could supply Israel with up to \$500m worth of gas a year.

The project would provide Israel, which currently depends on coal and oil for its power generation, with estimated annual savings of \$70m.

For Israel, the link with Gazprom would also offer the geopolitical advantage of a long-term power source outside the volatile Middle East region.

Israel: natural gas demand

Billions of cubic metres per year



For Gazprom, which controls 30 per cent of the world's known natural gas reserves, the deal would provide an attractive strategic

entry into the Mediterranean market.

Mr Ariel Sharon, Israel's minister for natural infrastructure, met Mr Ram

Vialcherev, the Gazprom chief, in Moscow last week to discuss the project. He said he hoped to reach a decision on whether to go ahead with the deal over the next few months. Early next month, Gazprom officials plan to travel to Israel to discuss the proposal.

Mr Nikolai Bely, head of Gazprom's foreign economic relations department, said various possible pipeline routes were being considered. The preferred one, he said, would go from Russia to Turkey, via a Black Sea submarine pipeline and then from Turkey to Israel, through a pipeline on the bottom of the Mediterranean. Theoretically, the pipeline could be used to supply

Russian natural gas to other Middle East states such as Jordan or to the Palestinian authorities.

Mr Sharon said he hoped Israel would begin to receive natural gas by the year 2000. Alongside stepped up efforts to strike a deal with Gazprom, Israel has not ruled out buying gas from Egypt, via an Egypt-Israel pipeline which would also run beneath the Mediterranean.

"The competition will enable Israel to get the best product for the best price," said Mr Yossi Ram, president of Del-Men, an Israeli energy company which has been involved in Russian-Israeli pipeline proposals.

But Mr Sharon seemed clearly to favour the Russian

option, citing concerns about potential shifts in Egypt's political attitude towards Israel.

"It is a possibility," Mr Sharon said of the Egyptian option. "But we are speaking about contracts that run for decades, so I have some doubts, so I backed and supported peace with Egypt, but I worry about the Egyptian position towards Israel. The Israeli government would like to be more assured that there will be no interference" in natural gas supplies.

In the past, Mr Sharon has said Israel would consider buying gas from more than one source in order to avoid dependency on a single supplier.

Between 1990 and 1994, 97 carriers sank with the loss of 537 lives

New safety plan for bulk cargo ships

By Charles Batocheur,
Transport Correspondent

Measures aimed at improving the safety record of the 4,500 bulk cargo ships which carry cargoes of coal, ore and grain around the world have been agreed at a meeting of international maritime safety experts in London.

Fears had been expressed by some shipping experts that disagreements over the need for action and the likely cost of tightening the regulations would prevent a compromise being reached.

The proposal that new bulk carriers should be built to withstand the flooding of one hold and that existing vessels should be strengthened will go forward to a special bulk carrier safety conference to be held at the International Maritime Organisation (IMO), the United Nations shipping agency, in November.

Shipowners who do not wish to carry out these improvements may be barred from carrying certain very heavy cargoes or may be required to change the way they are distributed throughout the holds.

The aim of the draft regulations is to reverse the alarming rise in accidents involving bulk carriers which has occurred since the 1980s, the IMO said. Many ships suffered severe structural damage and sometimes broke in two, often with heavy loss of life. A total of 97 bulk carriers sank with the loss of 537 lives between 1990 and 1994.

A study of accidents found that if a ship flooded the pressure of water could lead to the collapse of the cross bulkheads or partitions between the holds, especially if the ship was loaded in alternate holds with high

density loads such as iron ore.

Once one bulkhead collapses the rest often follow, domino-fashion, through the length of the ship and it is likely to sink within minutes.

The new draft regulations call for new bulk carriers of 150 metres or more in length carrying lighter cargoes such as wheat, rice and tim-

ber to be strong enough to withstand the flooding of any one cargo hold.

Existing vessels carrying heavier cargoes such as iron ore, pig iron, steel, bauxite and cement should have bulkheads and hull bottoms capable of withstanding the flooding of the foremost cargo hold.

Vessels which do not carry the heaviest cargoes may not need to be strengthened but if a shipowner accepts restrictions the ship should be permanently marked with a solid triangle on its hull, the IMO said.

The cost of strengthening existing ships has been estimated at \$38,500 for vessels up to 50,000 dwt tonnes and up to an average of \$137,000 for the largest ships of more than 80,000 dwt tonnes.

Vietnam reforms run into heavy weather

Loss-making state enterprises and barriers to trade are worrying issues, writes Jeremy Grant

The Vietnamese finance minister, Mr Nguyen Sinh Hung, was mulling at a diplomatic reception recently when he found himself face to face with a visibly upset US investor.

After listening to a barrage of complaints, the minister squashed his cigarette into an ashtray and thought for a moment.

"Please understand. We are trying to follow the open door (policy). But there is something wrong with the lock." It was a rare show of candour in a political system where official responses are usually anodyne. But it also underscored official concern that Vietnam's economic reforms are running aground.

It was a rare show of candour but it also offered a glimpse of official worry that Vietnam's *dai moi* economic reforms may have run aground. "The potential benefits of past reforms are nearly exhausted and... further change is needed to sustain macro-economic stability and a high rate of economic growth," said Mr Ari Kokko, an economist at the Stockholm School of Economics, in a recent report.

Economists cite two wor-

rying issues: the continued dominance of the loss-making state sector and a trade system tilted towards import substitution. Reform of both areas is being blocked by vested interests in the political elite.

But the economists say Hanoi must tackle the issue for Vietnam to ensure long-term growth.

State-owned enterprises (SOEs) account for over 70 per cent of industrial output but few are making money. Cozy links to the party ensure funding via state-owned banks, creating a web of indebtedness that lies behind much of the banking sector's recent ills.

Vietnam nurses a large trade deficit, which reached \$1.14bn in the first five months of this year. That would be sustainable in the medium term if the bulk of imports were being channelled into building up export-oriented industries, the economists say.

But Mr Kokko argued there is strong evidence that most imports are used by SOEs manufacturing for the local market, protected by tariffs and non-tariff barriers.

Many SOEs are in joint ventures with foreign multi-

nationals whose interest in Vietnam's consumer market is, ironically, reinforcing the import substitution tendency.

Professor James Riedel of the international economics department at Washington's Johns Hopkins University, said this approach was unsustainable. "For Vietnam to follow an import substitution strategy would be to ignore 50 years of economic history in which it has been demonstrated not to work."

Nor does it mesh with Vietnam's commitment to open markets, through its application for World Trade Organisation (WTO) membership and its promise to meet tariff reduction targets under the Asian Free Trade Area (Afta).

Worse, Mr Kokko argued, the longer the leadership delays decisions, the higher the cost of reform later.

"The costs for liberalisation will increase with every dollar invested by SOEs and

foreign multinationals into import substitution investments that will no longer be competitive when trade barriers are removed," he said.

Observers are asking what will prompt a shift in current behaviour.

Washington wants Hanoi to agree to a tough trade

West to put pressure on the EU or US to get any real breakthroughs on Vietnam.

Indeed, Vietnam is happy that Laos, Cambodia and Burma are to join Afta as it will no longer be alone on a "slow track" Afta timetable. US officials play down US pressures as the Vietnamese economy is still too small to be of serious interest.

Internally, policymaking is confused. Reformers - those most likely to push for change - are locked in a succession struggle with opportunist conservatives and military figures who prefer the status quo.

Some resolution is expected at a meeting of the powerful party central committee which convenes today and which is expected to endorse

that would, US officials claim, ease WTO entry. Afta is looking to Vietnam to cut tariffs under the Asian Free Trade Area scheme.

But Mr Richard Grant, head of the Asia-Pacific Programme at the Royal Institute of International Affairs in London, dismisses external pressures. "I don't see any constituencies in the

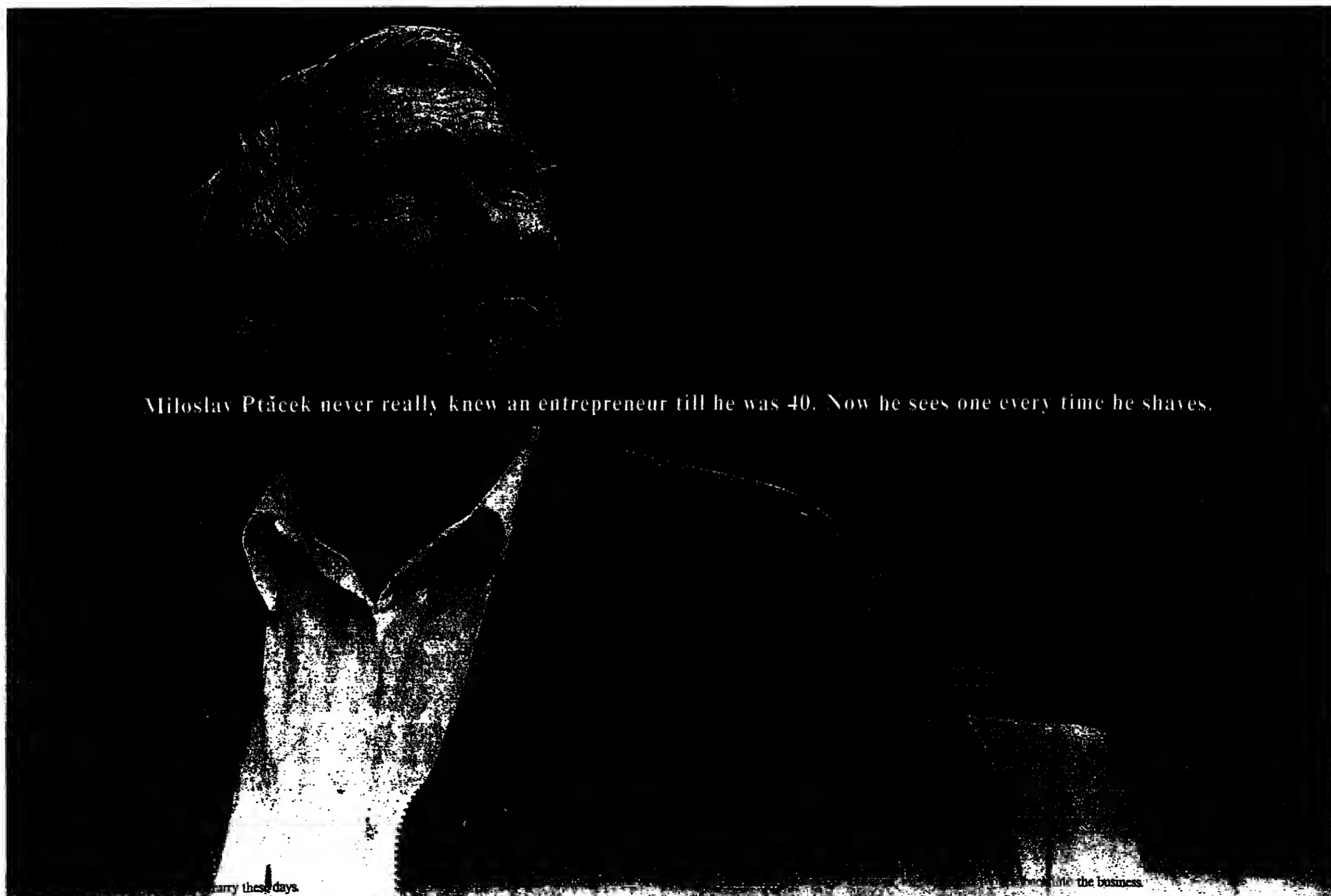
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Vietnam trade balance

	1996	1997	1998	1999	2000	2001
Merchandise imports	\$1.16	\$1.19	\$1.24	\$1.25	\$1.27	\$1.27
Merchandise exports	\$0.57	\$0.50	\$0.53	\$0.53	\$0.50	\$0.50
Current account balance	-3.40	-4.32	-4.36	-4.73	-4.56	-4.51

Source: EU forecasts



Miloslav Ptáček never really knew an entrepreneur till he was 40. Now he sees one every time he shaves.

The pace of his life quickened for Mr Ptáček. As the owner of a thriving urban demolition and renewal business in Prague, he hasn't much time for anything but his job.

new he's making all his decisions himself. One of which was to acquire the Caterpillar equipment he'd seen and admired at exhibitions but couldn't persuade the bureaucracy to choose for him.

dealer who gave him credit - and he now has the excavator of his dreams. Its speed and efficiency has cut costs to the point where profits have increased, which he tells us he's

Spoken like a true entrepreneur, Mr Ptáček.

CATERPILLAR

'Black hole' in cyberspace

Tax receipts threatened by internet

By Jim Kelly, Accountancy Correspondent

The UK's leading tax body warned yesterday that the government faces the loss of "billions of pounds" in revenue as the result of international computer trading creating a fiscal "black hole" in cyberspace.

The Chartered Institute of Taxation urged the Inland Revenue, at a special conference called in Lincoln, to endorse a joint strategy to secure tax receipts threatened by the growth in internet transactions.

Mr John Andrews, president of the institute, said: "UK plc is in danger of being bypassed by cyberspace trading and we must jointly discuss possible action to be taken." His warning comes in the wake of research suggesting that 60 per cent of financial services companies will use the internet for deals by 1999 - compared with 13 per cent today.

Mr Andrews said that computer trading could rob the UK of tax on both personal and corporate transactions. Tax would be "syphoned off" to other countries or not paid at all, he told the conference.

The institute proposed a joint working party to avoid what it called a "massive leakage of tax". He added: "We need to put our UK strategy in place before cyberspace trading gets out of hand."

Mr Andrews explained that companies could use programmed computers to buy and sell commodities in the cyberspace market. "Decisions and contracts

previously made in the UK are made abroad as a result, and the UK Revenue loses corporation tax."

The allocation of profit to the different tax regimes in which multinational companies operate is known as "transfer pricing". It is recognised as an area in which many companies already artificially seek to avoid tax.

Mr Andrews suggested that the UK could try to attract the location of "intelligent computer" operations by offering tax allowances in order to take advantage of the developing market.

On a personal tax level he said that when a consumer used a PC linked to the internet to purchase certain goods from a supplier located in a tax haven - such as Bermuda - Customs & Excise lost VAT.

The world's leading tax authorities are already engaged in efforts to secure their tax bases against leakage across borders. There are also fears that total global tax receipts could fall with the increasing use of tax havens.

The institute's warning will increase pressure on Mr Gordon Brown, the chancellor, to at least acknowledge the threat in his forthcoming Budget on July 2.

The last government had launched a crackdown on tax avoidance, evasion, and fraud, which is currently being evaluated by the National Audit Office. "The chancellor was examining the initiative anew - now there is also urgent need for action on the cyberspace threat," said Mr Andrews.

Water company feels the squeeze

Drought-fighting proposals have even included piping supplies in from France

It is ironic that Mr Peter Darby, who has one of the most difficult jobs in the water industry, is the son of a former London fire service chief.

As managing director of Folkestone and Dover, the only English water company judged at risk from shortages across all its supply areas, Mr Darby has even considered importing water from France using pipes designed to fight fires in the Channel tunnel. The idea has - at least for now - been dismissed as impractical.

The company, based around the south-east coast of England, has been on the look-out for radical solutions since January. That was when Générale des Eaux, its French parent, was forbidden by the UK Monopolies and Mergers Commission from bidding with Saur of France for the neighbouring Mid Kent company. One of their declared aims was to "optimise" scarce water resources in the heavily populated south-east.

The very notion of water shortages in Britain, traditionally seen as a rainy land where people love to moan about the weather, may itself seem a mystery.

"The basic geographical situation is that Britain is one of the wettest countries

in Europe but the rain falls in the wrong place," explains Mr Terry Marsh of the Institute of Hydrology. "The coincidence of the lowest rainfall in areas such as the south-east where population and commercial activities are most concentrated underlines Britain's water resource problems."

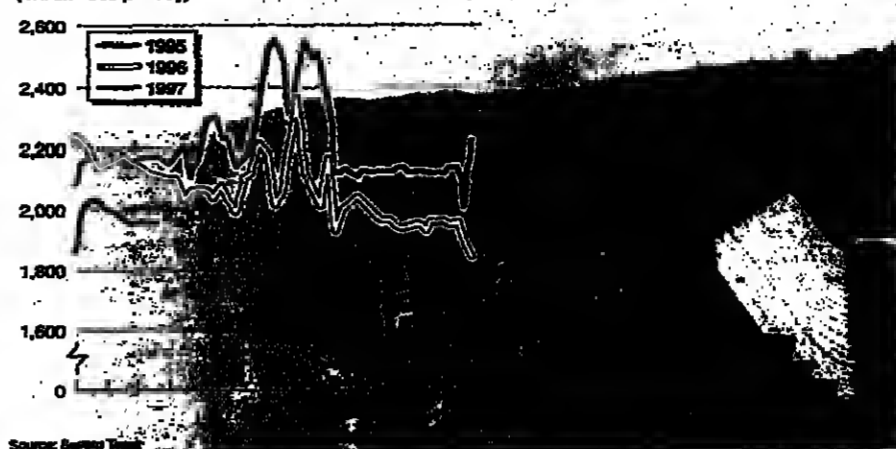
As part of a more energetic approach to industry regulation, the new government last month unveiled plans for companies to better manage existing supplies before building expensive and environmentally-damaging new reservoirs. These included "mandatory" annual targets for companies to reduce leaks, asking companies to repair customers' leaks free of charge and promoting use of water-saving devices. Companies have been set a deadline of today to respond to the proposals by Mr John Prescott, the deputy prime minister.

But the biggest concern for many water companies is the government's pledge to oppose mandatory metering of domestic customers.

Mr Darby says metering - charging according to

Plugging the leaks

Total water demand in the Severn Trent region (million litres per day)



Source: Severn Trent

amounts consumed, as practiced by most industrialised countries - has cut leaks in some areas served by his company by 40 per cent. It has cut water losses at night through leaks and careless use of sprinklers or taps by up to 80 per cent.

New properties are all automatically metered and most companies are forcing customers who own sprinklers or swimming pools to install a meter. Folkestone and Dover has gone one step further by making metering compulsory in areas with the worst problems.

Where Mr Darby warns to the new government is over its promise to review the antiquated licensing system. This governs where and how much water companies can abstract from rivers and boreholes. By historical accident, 30 per cent of water supplies in the area served by Folkestone and Dover are licensed to neighbouring companies. Most licences were granted before water shortages became an issue, dividing companies between haves and have-nots.

Leyla Boulton

Global image for Britain's national carrier

By Michael Skipper and Andrew Bolger

British Airways is denying that its new livery, to be unveiled tomorrow, represents a rejection of the national carrier's UK roots.

Instead, BA says, the design portrays the airline as a representative of a new Britain - cosmopolitan, outward-looking and at ease with different cultures rather than pinning for its imperial past.

The colours on the newly designed fuselage will still be red, white and blue, although the section of the Union Flag that currently appears on the tail will go.

In its place, aircraft tails will sport a range of brightly coloured art from different countries, representing an airline and a country open to the rest of the world.

The new corporate image, designed by consultants Newell and Sorrell, is the result of a two-year worldwide market research exercise costing £2m (\$2.2m).

BA found that its foreign passengers, who represent 60 per cent of its customers, saw the airline as competent but said that it represented the old Britain. BA's service, the passengers said, was professional but reserved.

The UK customers agreed, BA's livery, introduced 14 years ago as the airline prepared for privatisation, seemed old-fashioned to many. They wanted the airline to be more outgoing, spontaneous and - while still proud to be British - open to the rest of the world.

BA says the new livery is intended to send a message to its staff too. Mr Robert Ayling, the chief executive, last year launched a programme to prepare the airline for the new millennium and find savings of £1bn.

He said that BA would be making 5,000 staff redundant and replacing them with the same number of new employees. Many of the new staff will be flight attendants hired for their language skills.

Mr Ayling also told employees that any subsidiary services which could not be delivered as cheaply by airline staff would be contracted out.

Cargo and baggage staff have agreed to wage freezes, but BA's plan to sell its catering business at Heathrow has led to the threat of a strike by 9,000 ground staff at London's Heathrow and Gatwick airports.

Ironically, cultural factors lie behind some of the dissatisfaction over the sale of the catering business. Most of the 1,500 catering workers are of Asian origin, and greatly value the subsidised flights available to airline employees' families.

Acknowledging the importance of the issue, BA has offered to maintain catering workers' entitlements for three years after any sale.

Cook raises new single currency doubts

By James Blitz, Political Correspondent

Mr Robin Cook, the foreign secretary, yesterday added new doubt to the prospect of the UK joining a single currency in 1999, saying that "some very significant questions" had been raised about the European monetary union project in recent weeks.

Following the election of a socialist government in France and the Bundesbank's decision to rule out plans to revalue German gold reserves, Mr Cook said it remained "unlikely" that the UK would join Euro in the first wave of its formation.

Speaking on BBC television, Mr Cook reaffirmed that a Labour government could take sterling into a single currency in about 2002 if the project had proved successful. "I have always made

it clear that if it proceeded on time and if it then proved a success then, in the long run, Britain could not stay outside," he said.

But on the prospects of a single currency being set up at an earlier date, he said: "I think one would have to say that the last week has raised some very significant questions in the minds of politicians on the Continent as well as commentators within Britain."

He said the UK government would carry out a "hard-headed assessment" at the end of the year over whether Britain should join in 1999, but added: "At the moment we think it unlikely that that assessment would point to us joining."

Mr Cook stressed that the UK would not welcome the idea of joining a "softer euro" of the kind proposed by some politicians in Europe. "The debate at the

moment seems to be in danger of polarising between a softer euro which would not be workable and a hard euro which would not be popular," he said.

Mr Cook's comments came as Mr Gordon Brown, the chancellor, prepared to outline the government's five-point plan to boost labour market flexibility in Europe to a meeting of European Union finance ministers in Luxembourg.

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Travel industry enjoying fruits of building society conversions

Windfall payouts boost tourism

By Scheherazade Daneshkhu

Mr Douglas Marsh, a postman working in London, has just spent £2,000 on a family holiday to Florida thanks to the £1,400 windfall he received from the Alliance & Leicester building society when it converted to a bank in April. Ms Frances Davidson, graphic designer, is planning to spend her £1,000 Halifax windfall on a shopping spree in Cannes.

"I'm going to Cannes next week and I'm going to splash out on a leather jacket - which I've always wanted to do."

The travel industry is enjoying a good year thanks to the economic upturn, a rise in consumer confidence and £20bn of building society windfalls.

Its fight for a larger slice of the payouts began last month when it put summer 1998 holidays on sale - the earliest brochure launch

in the industry's history. Last week Halifax, the UK's largest society, increased the wealth of one-in-six adults by an average of more than £2,400 when it floated on the stock market. That bonanza is set to continue as Norwich Union, the insurer, and Woolwich, the building society, come to the market within the next four weeks.

Mr Mike Beaumont, head of commercial at Thomas Cook, the high street travel agent, said that the group's holiday sales last week jumped by 9 per cent compared with the same time last year from a 2 per cent increase the previous week.

"We think the windfalls are having an effect," said Mr Beaumont, "but since Halifax members who sold their shares will have only

just got their money, we'll have a better idea next week."

Mr Peter Shanks, commercial director at Going Places, the UK's second largest travel agency chain, said that some people spent their windfall before receiving the money. "We've benefited already because a lot of people have booked and put down a deposit in the knowledge that they will have the money when it comes to paying in full."

Thomson, the UK's largest tour operator, expected much more to come. "People have got money to spend and they are spending it. We are optimistic that the full impact of the windfalls will come in the next six months by driving through holiday sales for the back end of 1997 and summer 1998."

Sales of summer holidays are 12 per cent higher than this time last year and the industry expects the market to be up by about 6 per cent at the end of the summer.

Lower wage costs mean Britain is set to replace Italy as the biggest manufacturing site for Candy Eletrodomestici of Italy, one of Europe's biggest makers of white goods.

The company is spending two thirds of its total capital investment this year and next year in the UK, attracted also by the expanding market in the UK for domestic appliances as well as the country's relatively low wage costs.

Most of the investment is going into two plants run by Hoover European Appliance, the loss-making appliance company acquired by Candy two years ago for £100m.

Mr Silvano Fumagalli, chairman and chief executive of the privately-owned Candy, said Hoover had some "catching-up" to do in terms of improved automation. Candy's UK plants have productivity levels that in

Low wages attract white goods maker from Italy

By Peter Marsh

some cases are 25 per cent below those in the company's Italian factories, mirroring the UK's generally low manufacturing productivity compared with other industrialised nations.

However, Mr Fumagalli said this lower productive capability could be improved through use of new machinery which, with the UK's generally low labour costs, gave a good platform for expansion.

Investment this year and next in Candy's UK plants will be about £130m (\$30m).

Mr Fumagalli said it was "very likely" that Britain would leapfrog Italy as the company's biggest production centre by about the end of the century.

Last year, Italy, where Candy has six factories, produced 43 per cent of Candy's output by volume, with Britain accounting for 41 per cent. In 1996, Candy's total sales were about £1,800m.

Accounting for about 4 per

cent of Europe's \$9bn-a-year domestic appliance industry, Candy is the ninth biggest supplier of white goods across Europe.

The company's investments in Britain will mainly benefit its two Hoover factories in Merthyr Tydfil in Wales and Glasgow in Scotland, which make mainly washing machines and vacuum cleaners respectively. Candy also has a refrigerator plant in Liverpool in north-west England.

Britain already has more Candy employees than any other country - with 2,600 out of the total headcount of 6,500. Italy is the next highest country for Candy workers with 2,200.

Average labour costs, including employment taxes, are about 20 per cent higher in Italy compared with Britain. Mr Fumagalli said the UK's low labour costs acted as a general disincentive for UK companies to invest in new machinery.

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Accounting for about 4 per

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FT Surveys

Prices for electricity delivered to the premises of the electricity purchaser and returned to the system in day and evening				
Previous Period for 1985-1987		First Period for 1987		TSB use and
1st hour	Post price	Post price	post price	TSB use and
per hour	per hour	per hour	per hour	per hour
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MANAGEMENT

A bloated Uncle Sam gets the slimming treatment

It used to cost \$400 for a US department to buy a \$6 hammer. Linda Bilmes on how federal government is being reinvented along business lines

Reinventing government along business lines is becoming a global fashion. From New Zealand to Sweden, governments are borrowing techniques from the private sector in an attempt to cope with rising costs, demanding consumers and technological change.

Not surprisingly, the biggest laboratory for this experiment is the US. In the past four years Al Gore, vice president, has made the issue a top policy initiative with his National Performance Review.

He started in 1993 by convening a group of management gurus and chief executives who had successfully re-engineered large corporations. They told him the trick was to involve the federal workers. In style and substance, the review has imitated the business world, forcing big government departments to become more customer-focused, use competitive benchmarking, re-engineer their core services, and harness information technology to increase productivity.

The review is one of few policy initiatives to have its origins abroad. When the US started the effort in 1993 it studied what other countries had done, including Britain's "Next Steps" programme and New Zealand's "Performance Agreements".

Gore told the FT: "We've learned a lot from leaders such as Sweden and the UK, but they are also learning from us. The US effort is on a much bigger scale than those in Europe, and is probably less ideologically based."

America has firmly taken the lead. Senior officials from more than 30 countries, including vice-presidents, cabinet ministers, governors and legislators, have travelled to Washington to see how it should be done.

Working with David Osborne, management guru and author of two best-sellers, *Reinventing Government* and *Banishing Bureaucracy*, the review issued its first 400 recommendations for improving government in September 1993. A second round of 350 proposals was launched in 1995.

The programme is aimed at making government agencies undergo a profound philosophical shift - to think about the people they serve as customers, and to work in partnership with those they regulate.

According to John Kamensky, deputy director of the review, one of the secrets of the programme's success is that three-quarters of the proposals did not need congressional approval. By contrast, previous attempts to reform government depended almost entirely on legislative change. The review has been able to make Congress focus on a few "silver bullets" to improve gov-



ernment across departments.

One of these is procurement reform. Until recently, federal workers had to file a multitude of requisition forms - and await approval - for even the most trivial purchase. It cost \$60 to process a request for a \$4 stapler. The new system gives workers a

federal "credit card" for small purchases. The review estimates that this change has saved the taxpayer more than \$120m. Another silver bullet is a law permitting golden handshakes of up to \$25,000 for employees who leave the government. The aim was to encourage about 272,000

employees to leave the federal payroll by 1999. Already, 280,000 have gone from a workforce that peaked at 2.5m in 1990.

The self-styled Energiser in Chief is Bob Stone, a former Apollo engineer and Pentagon manager who pioneered reform at military bases. He and a tiny

staff command an army of reinvention-minded government employees. "Most of our staff are on loan from various agencies - over 800 have rotated through in the past four years," says Stone.

The main task has been to identify and reward innovative approaches. One tool for motivating federal workers is the Hammer Award, usually presented by Gore. The \$6 hammer, mounted on a plaque, is a reminder that the government used to spend \$400 to buy each hammer.

According to the independent General Accounting Office, 93 per cent of the review's first tranche of proposals has been at least partly implemented. This has produced net savings of more than \$100bn and the smallest federal workforce in 30 years.

Inevitably, the review has had failures. For example, in 1993 President Clinton ordered the federal government to cut the ratio of supervisors to workers. According to Doug Fairbrother at the review, many agencies have made only cosmetic changes, such as calling a supervisor a "team leader".

The review's top priority now is to deliver more widespread, visible change to the public. "The challenge ahead is to move the whole effort from a series of experiments to how government normally runs," says Elaine Kamarck, Gore's senior policy adviser. Or, as Gore put it: "To move from liberating single offices to liberating whole agencies and finally to liberate the entire federal government."

Linda Bilmes is a management consultant who has worked with government organisations. Her book, *Enlightened Employment*, will be published next year.

An about turn for veterans

One notable success has been the "reinvention" of the regional office serving war veterans in New York.

"Veterans were unhappy with the whole way we were structured," says Joe Thompson, a Vietnam veteran who runs the office. "We were set up like an assembly line, with 25 steps to process a disability claim. When a veteran would phone in for information, he would speak to someone outside this process, who could never answer the question. It was enormously frustrating."

"In April 1993 the National Performance Review designated us as a 'reinvention lab'. That gave us the freedom to be experimental. We went to IBM and ATT and saw that we needed to change

our organisational structure, workflow, jobs, performance measures and compensation systems. In four years we have done all this."

"We created self-managing teams, eliminated half the supervisory positions, and shortened the process from 25 to eight steps. One person on the team is the designated contact point for each veteran. We adopted the 'balanced scorecard' approach to measure performance, and we added in measures of customer satisfaction and employee development. Now we're trying to replace civil service pay scales with skill-based pay."

The result has been a significant fall in veterans' enquiries - down from 2,000 to under 1,400 calls per day. In a final twist, private companies, including Col-

gate-Palmolive, have visited Thompson - seeking advice on how to re-engineer their own operations.

Another success relates to the way regulatory agencies work with the private sector. Traditionally, these agencies had an adversarial relationship with the industries they regulated. Inspectors assumed guilt unless innocence was proven. This approach was reinforced by internal performance measures.

The State of Maine used to have the country's worst record of safety at work. Paradoxically, the local Occupational Health and Safety Administration was ranked as one of the best because it made the most inspections, found the most violations, and levied the highest fines.

Armed with the reinvention

badge, Osha in Maine told the 200 worst offending companies that it would get off their backs if they would sit down with their employees to work out detailed safety plans. All but one of the companies agreed to the challenge. The result was a fall of almost 50 per cent in the number of workplace injuries.

Information technology has also produced some remarkable successes. Miami Airport, the US's second largest arrival point, used a combination of experiments to shorten the time an average passenger had to wait in the customs hall from three hours to under 45 minutes - while also increasing drug seizures by 60 per cent.

Linda Bilmes



James Hobbs (left) and Graeme Loe: 'Like two naughty boys'

PARTNERS

Indian Ocean Trading Co

Graeme Loe, 35, and James Hobbs, 33, founded the Indian Ocean Trading Company after leaving their City jobs. In 1990, their company imports, exports and retails, book garden furniture. They have two shops, in Balham and Chester, and an annual turnover of £1m.

Graeme: "Jamie had worked at Lloyd's since leaving school. I'd spent five years working in corporate finance, so we'd basically grown tired of City life. Our initial idea was import/export, even though we had no idea of the product, only the country."

At that time Britain was doing very little trade with Madagascar, which meant there was plenty of opportunity. We looked at lots of ideas before coming across these huge canvas parasols. They were so well made that we knew instantly they'd sell in Britain.

Our City backgrounds helped us get started because we weren't afraid about investing our own money. I never thought, 'Oh my God, a second mortgage!' I believed from the start that we'd be a success.

In terms of responsibility, we naturally formed a clear delineation, with Jamie doing marketing and me the finance. We've probably disagreed most about his role because I couldn't see the point in spending huge amounts on advertising. In the end, he's been proved right and we've doubled our turnover every year since we've been in business.

Although we both hate administration, we share the problems of transportation. It's a logistic nightmare trying to deliver assembled furniture, particularly as the majority of carriage companies are useless. It would be bliss if we could

deliver everything flat packed, but our clients expect their goods to arrive in the condition they bought them. I've often paid a fortune for furniture then spent a week putting it together, which just isn't right."

James: "We were like two adventurous, naughty boys at first. We'd left good jobs to head off to Madagascar, so of course everybody thought we were potty. The exception was my father. He worked as the country's honorary consul, which was a great help because he had some terribly good contacts names and addresses. In our first year of business we did 40 exhibitions trying to sell not only parasols but other pieces of garden furniture. One of us would stay in the office manning the phone, while the other would load up the van."

It was invariably raining when you set off and raining when you packed up, which meant driving to somewhere like Harrogate, and back, wet through.

If we weren't on the road, we'd be in the office cold calling, or thinking up whacky ways to advertise. I once organised a bicycle polo match at the Hurlingham Club and lined the pitch with parasols. In the early days we'd exhibit at point-to-points because it was cheap and I knew the green welly brigade were our sort of customers."

I think our worst time was a flower show we did in Miami. Graeme and I sat for four days in boiling heat. I think the only reason we got any orders was because we were flying the Union Jack.

At least now we can employ other people, which means neither of us has to do [exhausting] any more."

Fiona Lafferty

Telecommunications.
Are you in touch?

FT telecoms Wednesday, June 11.

To stay in touch with global developments in the telecommunications industry, particularly the imminent changes to operating practices across Europe, get the Financial Times on Wednesday.

FINANCIAL TIMES
No FT, no comment.

Sex may be interesting, but not significant

The headline in last Wednesday's Daily Telegraph said: "Bedroom v boardroom: the Ronson dilemma". The picture showed entrepreneur Howard Hodgson in bed wearing nothing but a snug expression.

I stared at the picture, transfixed by the padded headboard and the swagged curtains behind it. The point of the piece, however, was not to comment on Hodgson's taste in soft furnishings, but to suggest that his relationship with a fellow director was connected to his being ousted from Ronson.

Hodgson's departure had nothing to do with his affair with Christine Pickles, the company's corporate development director. At issue was a different sort of pickle - the financial pickle the company is in.

While the Telegraph speculated that the existence of a boardroom relationship had gone down badly in the City, I credit the City with more sense. Being romantically entangled with the people you work with is a fact of business life. Think of the Roddicks, the Clintons, of Bill Gates, Michael Green - all have married colleagues. I married one myself, come to that. According to surveys half the workforce has at some time had an office relationship.

For the most part there is no problem. Difficulties may arise if the couple start to fight at work, or when the more senior of the two unfairly promotes their other half. But if this sort of thing is going on it suggests something more fundamental is wrong with the way that the company is being managed.

This does not mean that Hodgson's sex life is of no interest, however. The former funeral director and author of *How to be Dead Rich* has sought publicity, and a natural response is to be interested in his succession of blonde partners. The private lives of business people may have nothing to do with their ability



Lucy Kellaway

to do the job; but we are human too, and many of us can't resist gossip.

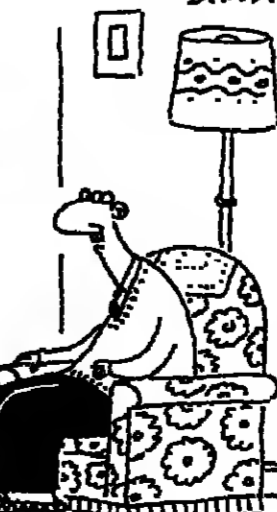
The Labour party's first serious brush with business has not been a pretty sight. First it appears to misunderstand that Camelot is a private sector company that has acted according to its rules. Instead it feigns outrage and insists that the lottery bosses give their perfectly legitimate bonuses back - a cynical move designed to appeal to a nation of fat cat haters. Only then it all goes wrong, the lottery bosses

threaten to resign, and Labour is forced to climb down with the not particularly face saving compromise that some of next year's bonus will be given to charity. The bosses will decide how much and be able to keep their generosity - or lack of it - a secret. On the bright side, the Government has recently hired some particularly smart members of the business world - Sir Peter Davis, David Simon, George Bain, Martin Taylor, Dominic Cadbury. One hopes Labour's next brush with business will show a little more finesse.

"HE'S A TIGER IN THE BOARDROOM."



BANX



Until last week I had never heard of flame-mail. Yet apparently these nasty, bullying e-mail messages have become a grievous office problem. Half of the workforce suffers from this new form of harassment. One in 70 have been so upset they have left their jobs as a result, according to a report published last week by Novell UK, a software outfit.

The main culprits are bosses who send upsetting and demotivating electronic messages instead of dealing with underlings face to face. The result is alienation. So much e-mail makes the office impersonal and employees waste hour upon hour sending and reading messages.

I find this hard to take seriously. E-mail does not create bullies. If these bosses were not abusing their staff through e-mail they would be doing it in another way.

And it is nonsense to suggest that e-mail is making offices less personal. E-mail encourages pleasant communication between colleagues. If you receive a message that makes you laugh out loud your day is better for it.

The latest non-subject to be vexing personnel directors is that of job-hopping graduates. Delegates at last week's Institute of Personnel and Development conference were told that one in three graduates quits their first job within three years, which apparently costs British industry £300m a year. This caused head shaking, but it seems to me that the turnover is on the low side.

Recruiting is always an uncertain business, and most graduates do not know if they like something until they have tried it. If two out of three graduates get the choice right first time, that seems like one of the few things that personnel directors could actually feel good about.

Slovenia is proving to be an unlikely centre for management education, says Jack Grimston

A school with a view

Few of the ex-communist countries of eastern Europe have made more impressive strides in management education than Slovenia, and in particular the International Executive Development Centre there.

IEDC was set up as the region's first western-style management school, just half an hour's drive north of the Slovenian capital, Ljubljana, as recently as 1988. But in April this year, the school was accepted as one of just 18 European schools - including such famous names as Insead, in Fontainebleau, and IMD, in Lausanne - to pilot the European accreditation scheme devised by the Brussels-based European Foundation for Management Development.

This should enhance the school's reputation. Until now, it has had little but reputation to go on.

The director, Danica Purg, set up the school with furious networking, recruiting top-notch visiting faculty. Purg and her Croatian deputy, Nenad Filipovic, are the only permanent staff teaching on IEDC's flagship MBA programme. The other 21 are mostly from well established schools such as the Erasmus school in Rotterdam and IMD.

William Cate-Baril, from Vermont University in the United States, has been teaching at IEDC since 1992. "At first I came here because I thought I would be helping. Now I just love it."

IEDC's setting, up a leafy drive beside a neatly maintained manor house used for government receptions, is deceptive. It rents its classrooms from the hotel whose building it shares. This has constrained expansion plans but all is set to change next year when

the school moves into a refurbished villa at the lakeside resort of Bled.

This DM5.5m (\$2m) new home will bring IEDC out of the hands of Slovenia's chamber of commerce and into private ownership. The 18 Slovenian companies financing the project are likely to be joined by foreign multinationals later on. Permanent faculty will be recruited for major functional areas such as marketing, finance and strategy.

Purg is straight about her ambitions for

the revamped IEDC: "I want this to become the main east-west meeting place for business and one of the top five schools in Europe," she says.

IEDC is already reaching beyond Slovenia which has just 2m inhabitants. Around one-third of this year's 1,500-odd students will come from outside the country, mainly from former communist countries. George Soros's Open Society Foundation has filtered 200 Romanian applicants for

just four places on the MBA course. The content of lectures, says Purg, differs little from what her visiting professors teach at home.

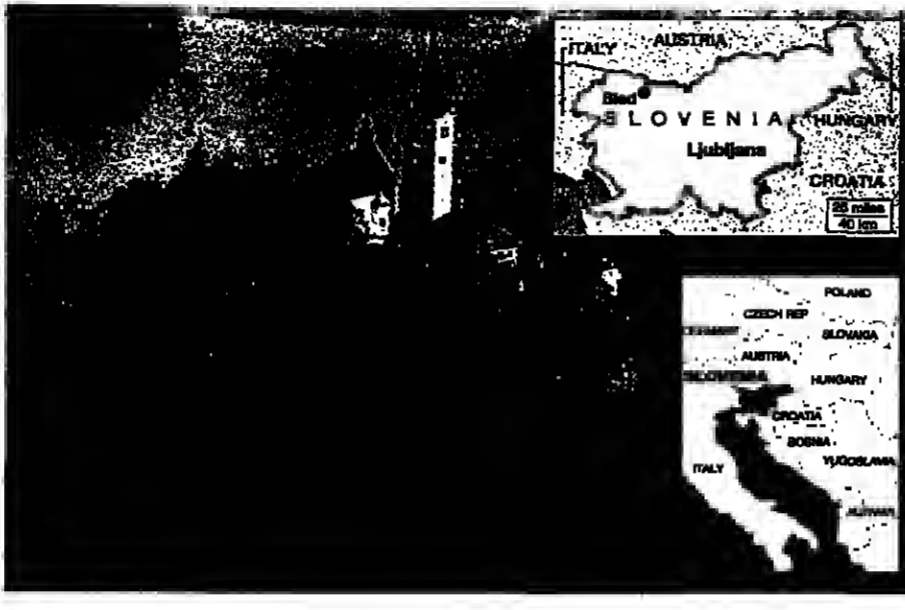
Popular courses include a general management programme for functional managers moving up the ladder and short courses specifically for Slovenian managers. Topics covered this year include finance for non-financial managers and how to organise management buyouts - the favourite method of privatising local industry.

In addition to these and its shorter seminars, the school makes about one-third of its income from in-company courses and consulting, usually for companies in Slovenia and neighbouring Croatia and for east European offshoots of western multinationals such as Renault and ABB.

The school's reputation also says a lot for Slovenia, its core market. A neat and stunningly beautiful little country, its prosperous western atmosphere belies its geographical proximity to the bedlam which engulfed much of the former Yugoslavia, which Slovenia left after a short war in 1991.

The economy, hit hard by the loss of the Yugoslav market, has been growing steadily since 1993. Although the country still has its share of leather, metal and textile industries, firms such as drug-makers Lek and Krka and food-processor Kolonjsek are led by tough and experienced executives.

Purg reckons that the future for Slovenian companies rests in knowledge industries such as computer software and in art and industrial design. With this in mind, she is incorporating a gallery for the latest Slovenian art in the school's new building.



NEWS FROM CAMPUS

Competition chair set up

British petroleum and petrochemical company BP has decided to endow a chair in European competitiveness at Insead, at Fontainebleau in France.

The endowment was instigated when Sir David Simon, himself an MBA graduate from Insead, was chairman at BP. Last month Sir David was appointed minister for trade and competitiveness in Europe in the UK's Labour government. Insead professor of strategic management Karel Cool, is the first incumbent of the position.

Insead: France 1 80 72 40 00

Students set a "green" hurdle

In a bid to produce "greener" business folk, the World Business Council for Sustainable Development has got together with students from MIT, in Boston, and the Norwegian School of Management to develop an internet-based student association.

The Sustainable Business

Challenge Exam (SBCE) is a multiple choice test for those who wish to acquire the business basics on sustainable development. An information briefing for the test is also posted on the internet and those who pass the exam receive a certificate which can be mentioned on job applications.

The briefing and test were posted on the internet on June 5, the UN environment day. They will remain available until December.

SBCE is at <http://www.sbscd.ch/foundation>

New dean for Katz school

The Katz school of business at the university of Pittsburgh has appointed Frederick Winter as its school's next dean. Winter will take over from interim dean Andrew Blair from July 1.

Winter, currently dean of the management school at the state university of New York at Buffalo, is a specialist in marketing strategy, market research and market segmentation.

Katz: US, 412 624 8252

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JUNE 12

Proposed UK Food Standards Agency
Open Forum to exchange views with UK Ministers, leaders of the food processing, manufacturing, distribution & retailing sectors, scientists, media, engineers & lawyers and consumer representatives. Joint SCI/IFST event.
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LONDON

JUNE 19

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Peter Agar, CBI; David Lee, TUC; Janet Gwynne, Simmons & Simmons; Peter Martin, BEP; Robbie Gilbert, EPPA; Helen Leifer, DTL.
Organised by The House Magazine and European Public Policy Advisors £300 (discounts available)
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Tel: 0171 262 5050 ext 3229
Fax: 0171 706 1897
Email: info@lbi.london.ac.uk
LONDON

JUNE 26

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Financial Times

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ADVERTISING

The haredim singled out for hard-sell

Campaigns aimed at the devout respect tradition, says Avi Machlis

When Pepsi-Cola was launched in Israel in 1992 with a campaign depicting human evolution from ape to Pepsi drinker, Israel's extremely devout ultra-orthodox religious Jews were furious and eventually boycotted the drink. By challenging their anti-evolutionary views, Pepsi bungled an opportunity to penetrate Israel's most rapidly growing market. They were not alone. Many Israeli companies were at loggerheads with the religious groups, who often set bus stops on fire which displayed advertisements featuring bikini-clad, or even bare-armed, women which they considered immodest.

Five years later, Israeli companies are avoiding confrontation. The lessons they are learning are relevant for companies entering emerging markets with large traditional populations. "There are traditional people all over the world who don't react positively to ads featuring scantily-clad men or women drinking a cola," says Daniel Carasso, Israel analyst for Union Bank of Switzerland. "They say 'I don't want to be that person' and it distances them from purchasing. In Israel, the religious market is a tremendous market that has been totally ignored."

The ultra-orthodox, or *haredim* population has nearly doubled since 1980 to about 600,000, or 10 per cent of Israel's population. Yehoshua Lieberman, an Israeli business professor, says their annual spending power on non-durable goods is about Shk3.3bn (\$500m) and will rise to Shk4.6bn by the end of the decade. Consumer spending per head is much lower than the Israeli average since most *haredim* families are large. But more than 40 per cent of their money tends to be spent on products such as food.

Blue Square, Israel's largest retailing chain, has three large supermarkets in ultra-orthodox areas. "Such stores did not exist in the orthodox sector before we entered two years ago," says Jacob Gelbard, Blue Square's chief executive.

You won't find European brands in these stores, since the ultra-orthodox adhere rigidly to kosher dietary laws. But religious items such as ritual candles and prayer shawls line the shelves alongside products stamped with eight different kosher certifications.

These stores have recorded higher sales per square meter than the chain's regular supermarkets.



Screen ads are unnecessary: the ultra-orthodox are forbidden to own TVs

Other companies have simply tailored their advertising messages in separate campaigns.

Rachel Bolton's small advertising agency in Tel Aviv aims exclusively at the ultra-orthodox for several leading Israeli companies. "The needs of these consumers are completely different," she says. "Depicting a product as being 'in' or 'cool' simply doesn't speak to them."

The Wissotzky tea company, for example, ran a national campaign with exotic scenes shot in Asia. "The *haredim* community doesn't want to feel the Far East entering their homes," Bolton explains. Her ad shows three bearded men studying the Torah.

Tradition also helps keep costs down. Television ads are unnecessary, since the ultra-orthodox are forbidden to own televisions. Instead, inexpensive ads are placed in *haredim* newspapers. Poster-boards are popular in their insular neighbourhoods.

And although the ultra-orthodox seek a life isolated from the secular world, they want new products. "Many customers say we have done them a favour," says Gelbard. "For the first time, someone is asking them to come in and shop."

Ad in the News • The Rover 600

Hostage slips past watchdogs

The British ad industry sometimes has an aberration of taste so painful that it leaves one gasping at the television in disbelief. Fortunately such lapses are relatively rare in the business that prides itself on self-regulation. Unfortunately, the new Rover 600 commercial was one such moment.

Rover has been forced to withdraw the ad and apologise. It had never, said the company, intended the ad to be controversial.

Certainly there was no violence in the ad, not even implicit: there was no lewd behaviour; there was not even any sex. It was simply poor taste.

Briefly, a British hostage was released from long-term captivity in an exchange. Still blindfolded, he was bundled into a new Rover 600, and met by a "welcome back, sir" from a Foreign Office minion. Meanwhile, his former captors whooped and hollered atop a battered old lorry, delighted to get their man back.

Our hostage was oblivious to his welcome. Still blindfolded, he was too busy feeling, caressing even, the leather upholstery of the Rover's interior. In a scene of extraordinary crassness, he lifted the blindfold from

one eye, and breaks into a big grin because now he knows he really can relax.

I wish I had made this up - or was exaggerating. But that was it in its full infamy. It was actually even worse on-screen because the heavy-handedness of the direction, and Handel's *Largo* on the soundtrack, compounded the folly of the script.

And, of course, there was the customary portentous voiceover informing us: "We've engineered the Rover 600 to be a haven of calm and tranquility. Once experienced, it's never forgotten."

How could this ad have slipped by the countless controls within client, agency and industry watchdogs to ensure that commercials like this do not hit our screens? How could an ad that unintentionally made many

people wince on first viewing have slipped through so many taste sensibilities?

Let's try to be fair to Rover, and its advertising agency, AP Lintas. If you watched last year's fascinating BBC2 documentary series, "When Rover met BMW", you will know that the company agonises in its attempts to find something to say about its unremarkable cars.

The quality of those cars has nevertheless come on in leaps and bounds during the past decade, but it is difficult to convey such a turnaround to a public that has a long memory. As that documentary showed, Rover plumped for a certain quality of "Englishness" and "relaxed motoring" as marketable brand propositions.

The previous "Englishman in New York" Rover 400 ad made some sense of this idea.

In "Hostage", however, the leap between advertising strategy and finished commercial was risible. What must the German bosses at BMW, responsible for the benchmark in understated advertising, have made of this boorishness?

The author is editor of Campaign

Stefano Hatfield

The leap between advertising strategy and finished commercial was risible

Are you a "sensualist" or a "sleepwalker" when it comes to choosing a yellow fat to spread on your bread? The marketing team at Unigate, whose St Ivel subsidiary is heavily involved in the competitive yellow fats market, has identified 10 categories of consumers in the struggle for market share.

Manufacturers know consumers prefer to spend as little time as possible at the butter and margarine counter. So they are investing heavily on innovation and marketing to make their brands stand out.

The mature market has become one of the most brand-led in the grocery field, with at least 20 brands competing against each other and the supermarkets' own-label versions.

"If you're not launching new products, you're losing market share," says

Brian Cardy, managing director of St Ivel Chilled Products.

St Ivel's "sleepwalkers" are a large group who clearly find all this confusing and stick to what they have always bought - not the best targets for advertisers.

"Dieting masochists" opt for the lowest-fat margarines. "Health technicians" choose products high in essential fatty acids recommended by medical experts. "New naturals" are keen on products made from olive oil.

But it is the "sensualists" over whom the yellow fat manufacturers fight most fiercely. These consumers have led the trend away from the health preoccupations of the 1980s to the preference in the 1990s for products with a "buttery" flavour but less fat than the real thing.

Dairy spreads, made from vegetable oil and buttermilk, are the fastest-growing segment in a £900m butter and margarine market that has declined in volume by about 2 per cent

this decade, according to market researchers AC Nielsen.

Priced higher than margarines but lower than butter, dairy spreads have captured about 33 per cent of the market by value - a share second only to that of soft margarine, with 35 per cent but falling.

The market is dominated by Unilever's Van den Bergh Foods with 44 per cent. It is followed by Unigate (the company's annual results are announced today) whose St Ivel took

over Kraft's European spreads business last year to give it 25 per cent.

Dairy Crest has about 12 per cent.

Despite Van den Bergh's pre-eminence, Dairy Crest launched dairy spreads in 1984 with Clover, still the leading brand. Van den Bergh replied five years ago with I Can't Believe It's Not Butter and St Ivel launched Utterly Butterly in 1995.

Entering this jostling market can be an expensive and painful business. The advertising spend on margarine and

spreads is the highest in the dairy sector at £25m-£30m a year, according to Key Note, market research publishers.

Van den Bergh has so far spent about £25m marketing Dalesby's, its premium-priced, "traditional" spread, launched last autumn. But it has gained only a 3 per cent share of the sector. Guy Walker, chairman of Van den Bergh, admits disappointment but points out that well-known brands Flora and Olivio both needed a couple of years to take off.

Differentiation also seems never-ending. St Ivel brands are being given new packaging and I Can't Believe It's Not Butter is being relaunched with emphasis on taste and texture.

Clover, on which Dairy Crest spends about £12m a year in total marketing support, underwent a packaging redesign last year.

Sleepwalkers jostle the sensualists

Alison Maitland maps the increasingly competitive UK yellow fats market

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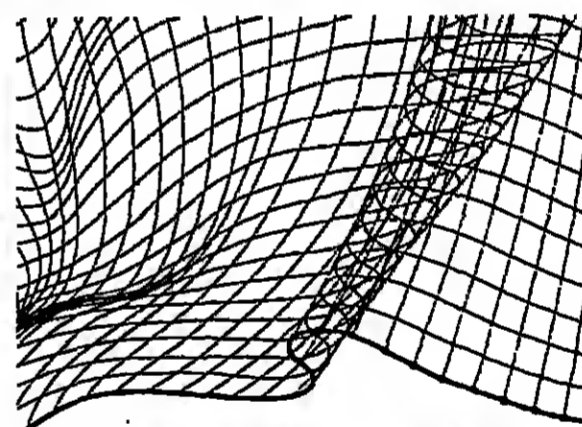
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FT Discovery



House & Garden this month celebrates 50 years of bringing good design to a wider audience

A half century free of 'fluff'

House & Garden, once full of tips for coping with austerity, has rising sales

House & Garden, the top-market magazine which has specialised in bringing good design to a wider audience, marks its half century this month with a celebration of British design during the past 50 years, writes Raymond Snoddy.

In the 1940s, the magazine explains, it tried to be "a stylish source of inspiration for coping with austerity" with a slant towards practicality and improvisation

(although Cecil Beaton was featured "at home" in his 1930s house). By the early 1950s such well-known British designers as Terence Conran and David Hicks made their first appearances and in the 1960s John Fowles - "doyen of the English country house interior" - rubbed shoulders with Michael Heseltine and his bride in their first home, David Hockney, Jean Muir, Mary Quant and Twiggy.

By the 1970s Jan Kaplicky and Richard Rogers were

advocating their own brands of modernism at the same time as John Makepeace was spearheading a new age of craftsmanship in wood.

In the 1980s "chintzes, toiles de Jouy, swags, tassels, stencilling, stippling, marbling, Riedermeier, candle-shades and Agas became "best-sellers". In the present decade, House & Garden believes, the trends include simpler versions of the country-

house look and "beefed-up" interpretations of Minimalism.

The present editor Snaa Crewe, who is only the fourth in the magazine's history, describes herself as the typical House & Garden reader. "I am aware and passionate about how I live. I garden. I cook. I travel. I go to exhibitions and I am careful about what I pay for things."

She came to magazine editing via running a dairy farm and later freelance

writing. She was also in charge of Jennifer's Diary in Harpers & Queen magazine for a year.

Crewe insists that House & Garden is not a "fluffy" magazine. "We assume our readers are informed, not experts. But we don't protect them from the proper names of plants, for instance."

The concept appears to be working rather well. Circulation - which was 150,000 when she took over - is now at a record 187,000.

TELEVISION

India's DTH satellite TV grounded

A broadcast bill has left installation engineers in limbo, says Mark Nicholson

The satellite is up, the installation engineers are trained and ready, the customer service staff in place, the glossy brochures printed, Indian Sky Broadcasting has even taken out full-page press ads to introduce a new concept to India - direct-to-home satellite broadcasting.

But they are kicking their heels in the wood-panelled Delhi offices of ISkyB, the Indian DTH associate of Rupert Murdoch's Star TV. The 180 ISkyB staff have been ready for weeks to launch a \$300m (£180m) operation to introduce India's first DTH TV service. DTH means subscribers draw channels from their own small satellite dish and decoder box. But according to Urmila Gupta, executive director of News Television (India), Murdoch's Indian TV joint venture: "Our main worry is holding on to these people we've carefully hired and trained."

The delay is a result of the Indian broadcast bill, tabled last month, which would require the licensing of all foreign satellite broadcasters into India.

It would force all such channels to originate their

signals within India and it would also force DTH services, like ISkyB's, to bid competitively for licences.

The bill, before a parliamentary committee, may be amended next month. But only once the bill is finally passed and a new Independent Broadcast Authority is created will any licence bidding process even begin.

The bill has brought to an indefinite halt plans by ISkyB to roll out a DTH service which its executives believe could have reached a break-even audience of 1m subscribers within four years. The company expected 150,000 viewers - mainly affluent city dwellers - on its books by the end of this year.

It has also raised a host of new questions for ISkyB, such as how much a new licence would cost, and how much would have to be added on to its envisaged subscription fee.

ISkyB is aiming at a wealthy niche market. DTH viewers would at first have to pay Rs10,000 (\$279) for dish and decoder (about half the cost of the units, subsidised by ISkyB) plus monthly rental of Rs450.

The package of channels would include movie, sport

and educational channels in addition to the 33 channels - like Star, CNN, ESPN, Sony Entertainment, Home TV and others - which have beamed into India for the past six years. It would very likely have included India's first 24 hour indigenous news channel.

The DTH package is much pricier than cable, which already brings satellite TV to an estimated 17m Indian viewers among the 57m who own televisions.

But ISkyB believes many who can afford twice the monthly Rs250 rental generally charged by India's 75,000 cable operators will pay for improved signal quality and a better choice of viewing.

Cable is a rough and ready business in India. Most "cablewallahs" simply catch signals in big dishes above their offices then string out looping webs of cables to all households within reach.

For the broadcaster, DTH also offers hope of making money in what has become a ferociously competitive but largely loss-making market since the advent of satellite TV to India.

Barely four of 33 channels beamed into India, including a plethora of poorly capitalised locals competing with

big international broadcasters like ESPN or Star, are believed to make money.

DTH offers the prospect of eventually reaching homes out of reach of the present "cablewallahs". A recent study by McKinsey, the consultant, noted that DTH "possesses a peerless ability to reach geographically dispersed subscribers". It identified India - where 75 per cent of people live in rural areas - with Mexico and China as prime future markets for the system. India's rural areas are not by definition unsophisticated but people in rural areas may prefer educational and regional language programmes as distinct from westernised programmes. Such programmes are proving very successful in Madras, for example.

Jai Prasad Reddy, India's new broadcast and information minister, says the law was long overdue, to legislate for media which did not exist by laws when the 112-year-old Indian Telegraph Act was framed.

It was also designed, Reddy says, to offer local TV companies players a "level playing field", allowing them for the first time to beam signals from India, and

simultaneously forcing licences on existing foreign broadcasters.

But most foreign broadcasters, and particularly ISkyB, believe the bill has been specifically designed to deal with a perceived threat, both by some politicians and a strong lobby of domestic television entrepreneurs, of foreign broadcast "domination" or telecolonialism.

Raymond Snoddy • Media

Auntie has digital fever



Before long the BBC will begin making dummy programmes for its 24-hour-a-day digital television news service for the UK.

The editors are already hired and market research is under way. You can be sure that everything will be meticulous and carried out to the highest, if not the most economical, of standards. But at £30m to set up, and a mere £10m or £12m a year to run, it must be bargain.

On the face of it, such a news service is a thoroughly commendable development for the corporation. It is almost a responsibility for the BBC to use the luxury of its £1.8bn a year licence-fee funding to be a pioneer and to follow where technology is leading.

After all, the BBC is certainly the world's most famous, and possibly even its most effective public service broadcaster. The television news service is only one of five or six new digital services being launched by the BBC in the next 12 months, paid for out of the licence fee.

Then there are a further seven new channels being launched as separate commercial ventures with Flextech, the US-owned cable and satellite company.

Least licence-fee payers become alarmed at Auntie's present infatuation with all things digital, the BBC chairman Sir Christopher Bland happily tells that the corporation has no intention of "betting the shop" on such ventures.

It seems that only £28m out of the corporation's present surplus of £500m has been allocated to the digital future, including the cost of introducing digital technology throughout the corporation. It is only possible to raise one half-hearted cheer for all this apparently rational activity that seeks

to ensure that the BBC is present on any passing digital platform, whether digital satellite, digital cable, digital terrestrial television or even the PC.

There are problems of timing, cost and scale, not to mention the effect on existing programmes, which are already being squeezed to pay for these grandiose adventures.

At least the 24-hour digital news service will probably have plenty of time to perfect its technique. British Sky Broadcasting has postponed the launch of its own digital service until next spring and the cable industry could easily follow suit, although it has the capability of launching this autumn. Digital terrestrial is supposed to start broadcasting by next July at the latest, but little of consequence is likely to happen before the autumn of 1998.

For at least a year, the BBC is likely to be broadcasting a 24-hour digital television news service to hardly anyone and after that to tiny audiences for at least a year or two.

It all seems silly and unnecessary on such a scale. Why could not the BBC, at least at the outset, simply have broadcast BBC World, its existing 24-hour television news service for overseas audiences, on digital in the UK?

There are problems of timing, cost and scale, not to mention the effect on existing programmes at the BBC

The time to launch a dedicated domestic service would be when digital has made some real impact and is in, say, 50,000 of the UK's 22m homes with televisions.

It all depends, of course, on what view you take on how fast consumers will embrace digital television. The BBC appears to think there will be queues around the block to buy digital "blackbox" decoders.

That seems unlikely. All the evidence from around the world so far suggests that digital, despite the potential of offering 200 channels of television, is making slow progress. "People aren't coming to the digital party," a leading satellite broadcaster has said. That broadcaster believes that not only will it be tough but that exclusive sport and movies are the only effective drivers.

If the BBC management had their noses less deeply in the digital they might be able to pay a little more attention to more pressing problems - such as the continuing loss of sports rights to other broadcasters; what staff say is the worsening, mind-numbing bureaucracy in the corporation; and the small fact that since November the BBC has been unable to persuade anyone of merit to head what ought to be one of the best drama departments in the world.

The BBC has launched a period of public consultation on its digital and multi-channel plans but the corporation only consults the public once its mind is made up.

It took a march of the middle classes on Broadcasting House to prevent Radio 4 from being removed from medium wave. Something similar will be needed to persuade the BBC that a more measured approach to the digital world would be wiser than its present "courageous" big plan.

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Tim Jackson • On the Web

A solution to junk mail

One of the most satisfying kinds of business identifies a pair of problems, and makes money solving both. Last week I came across a striking example: Aristotle Publishing of San Francisco.

Aristotle (www.aristotle.org) hopes to profit from dealing with two hot issues on the internet: the irritation of users sent unsolicited advertising by e-mail, and the understandable wish of direct marketers to reach customers by this cheap and quick means.

So contentious is the conflict of interest between senders and recipients of junk e-mail that Senator Frank Murkowski of Alaska proposes a bill which would require junk mailers to mark their outgoing e-mails with ADVERTISEMENT at the start of the subject header, and to include the sender's phone number and mailing address. Non-compliance would be punishable by fines up to \$11,000.

If the bill becomes law, it will be hard to enforce beyond US jurisdiction. Would the fly-by-night outfits it is aimed at be deterred by fines when they are already flouting laws against pyramid schemes and other financial frauds which could mean jail?

It makes more sense to recognise that some internet users will be willing under some circumstances to receive some messages from direct marketers - and to try to find a way of passing on the postage savings from sender to recipient.

Last year, I wrote about a company called CyberGold, which had set up an e-mail service offering consumers money if they read the junk mail sent to them.

Aristotle is based on the same idea, with a twist. While CyberGold and others are forced to build their businesses organically, Aristotle aims to start by signing up the biggest junk mailer of all - the government.

Using the most reliable mailing database in America - the registration records of all 138m voters - Aristotle is offering public-sector organisations a chance to cut their mail costs by sending statutory mailings to citizens electronically.

Here's how it works. Consumers sign up, attracted by the idea of receiving an average of 50 cents for each piece of mail they read, and Aristotle checks their details against the voter registration records.

The company then activates the consumer's mailbox. When a consumer uses the Web to read mail from the Aristotle server, the company can prove that the message has been read by

the recipient. So the e-mail counts as delivered under US law - and a government body can use e-mail instead of the post to satisfy its statutory obligation to send certain mailings.

Consumers can either save up the reading fees they receive until they reach \$100, and then get a cheque, or they can offset their credit balance against a tax bill or fee payable to a government authority that uses the service. They can fill in a checklist of their interests, indicating what kinds of junk mail they are willing to be paid to read.

Aristotle's business model proposes passing on to the people reading the e-mail slightly more than over half the fees charged to commercial mailing companies.

But there are other sources of revenue, too. The company can segment its database, charging premium prices, for instance, to access consumers who have expressed an interest in selling; and it can arrange promotions where consumers can claim rebates if they respond, and the advertiser pays Aristotle a bounty for bringing in a new customer.

The idea may sound alarmingly easy to imitate. But John Aristotle Phillips, the company's founder, believes the barriers to entry are considerable. The database must be built up from 3,000 different records held

in counties and municipalities across the US, many of which require an affidavit from an election candidate.

Phillips has a secret weapon: he is also the founder of a company that markets software called Campaign Manager and has assembled a national voter database.

Phillips's greatest success is to have signed up as a customer Bill Jones, California's secretary of state, who sends 14m pieces of mail to state voters twice a year. Last week, Phillips was preparing to announce a deal with Direct Media, one of the biggest direct marketers companies in the US, which handles distribution of 36 mail-order catalogues.

His dream is that America's leading catalogue houses will soon send out catalogues in wrappers telling customers that they can be paid to read the same catalogue online.

Phillips believes he has a good chance of signing up 5 per cent of the households in the US by 2001, and replacing 10 per cent of the 1,060 pieces of paper mail sent to the average household.

No wonder the company is seeking \$2m in venture funding. But this is one of the better new business ideas that I have seen on the Web for a while. It just might work.

tim.jackson@johbox.com

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BUSINESS TRAVEL

Travel News • Roger Bray

Check-in by card

Hilton is testing smart cards which will enable guests to bypass the lobby check-in desk. The trial, which is being conducted jointly with American Express and IBM, has started with the installation of a special kiosk at the chain's hotel at Chicago's O'Hare airport.

Later this month it will be extended to seven more hotels.

Customers can choose the kind of rooms they want and a machine issues a key. When they leave, they can check out by inserting the card again, checking the

bill, paying and getting a printed receipt.

The guinea pigs are a group of several thousand frequent travellers who are being issued with American Express or Hilton loyalty cards with chips carrying the appropriate information. Cardholders will be able to update their personal profiles.

Shuttle recovery

Le Shuttle, the Channel tunnel car carrying operator, has increased its daytime services to four trains an hour following

cuts forced by last winter's fire. But there was a stuttering start to the new timetable last week, when technical problems reduced it to two an hour for a time.

Tomorrow the company - which offers a club class service for business travellers, guaranteeing them space on the next train - will confirm that it is going ahead with a loyalty scheme for regular customers.

Orion expands

French apartment hotel chain Orion has just opened its second property in London - in High Holborn.

The new hotel, which is close to Oxford Street, has 182 serviced studios or larger apartments, with cooking facilities and private parking. There is no restaurant, but guests will be able to buy snacks.

Prices range from £52 to £122 a night, depending on apartment size and length of stay. The company already has a hotel in the Barbican, close to the City. It plans to open a third in October, a 156-apartment property in Northumberland Avenue, which is near Trafalgar Square.

Orion has hotels in France and Belgium, and plans to expand into Prague, Berlin

and Rome.

Cut-price service

A cut-price air service between London's Gatwick Airport and Stockholm (Skavsta) starts on Thursday.

Every second day a round-trip service between Sunday and Friday, with fares from £55. There will be one return flight on Saturdays, except in July, when the Dublin-based airline will operate two.

To qualify for the lowest fares travellers must stay away at least two nights. The cheapest package available to passengers needing to come back the

same day - or stay just one night - is £120.

Skavsta Airport is about 100 miles from Stockholm and about one hour's drive from the capital. A bus links the airport with the city. The service is operated by the airline, which is about £32 - but check the fare before setting off.

Oil link

Two major oil companies - Doha Petroleum and the Arabian Gulf Oil Company - have been linked by an air service.

Emirates has been operating the service since the week on the route between the UAE and the UK.

Likely weather in the leading business centres

	Mon	Tue	Wed	Thur	Fri
London	15-20	15-20	15-20	15-20	15-20
New York	15-20	15-20	15-20	15-20	15-20
Paris	15-20	15-20	15-20	15-20	15-20
Frankfurt	15-20	15-20	15-20	15-20	15-20
Amsterdam	15-20	15-20	15-20	15-20	15-20
Brussels	15-20	15-20	15-20	15-20	15-20
Madrid	15-20	15-20	15-20	15-20	15-20
Rome	15-20	15-20	15-20	15-20	15-20
Stockholm	15-20	15-20	15-20	15-20	15-20
Osaka	15-20	15-20	15-20	15-20	15-20
Tokyo	15-20	15-20	15-20	15-20	15-20
Singapore	15-20	15-20	15-20	15-20	15-20
Manila	15-20	15-20	15-20	15-20	15-20
Bangkok	15-20	15-20	15-20	15-20	15-20
Beijing	15-20	15-20	15-20	15-20	15-20
Shanghai	15-20	15-20	15-20	15-20	15-20
Seoul	15-20	15-20	15-20	15-20	15-20
Hong Kong	15-20	15-20	15-20	15-20	15-20
Guangzhou	15-20	15-20	15-20	15-20	15-20
Shenzhen	15-20	15-20	15-20	15-20	15-20
Chengdu	15-20	15-20	15-20	15-20	15-20
Chongqing	15-20	15-20	15-20	15-20	15-20
Kobe	15-20	15-20	15-20	15-20	15-20
Fukuoka	15-20	15-20	15-20	15-20	15-20
Yokohama	15-20	15-20	15-20	15-20	15-20
Nagasaki	15-20	15-20	15-20	15-20	15-20
Kyoto	15-20	15-20	15-20	15-20	15-20
Osaka	15-20	15-20	15-20	15-20	15-20
Beijing	15-20	15-20	15-20	15-20	15-20
Shanghai	15-20	15-20	15-20	15-20	15-20
Guangzhou	15-20	15-20	15-20	15-20	15-20
Shenzhen	15-20	15-20	15-20	15-20	15-20
Chengdu	15-20	15-20	15-20	15-20	15-20
Chongqing	15-20	15-20	15-20	15-20	15-20
Kobe	15-20	15-20	15-20	15-20	15-20
Fukuoka	15-20	15-20	15-20	15-20	15-20
Yokohama	15-20	15-20	15-20	15-20	15-20
Nagasaki	15-20	15-20	15-20	15-20	15-20
Kyoto	15-20	15-20	15-20	15-20	15-20
Osaka	15-20	15-20	15-20	15-20	15-20

FAST

Charles Batchelor on the growing attraction of international high-speed trains

Railway point to point

Until recently the international business traveller with a diary full of appointments had no alternative but to fly.

The emergence of cross-border high-speed rail services in Europe is starting to dent the traditional air-line dominance of this field, however, even if a continent-wide network of high-speed links is still at least two decades away.

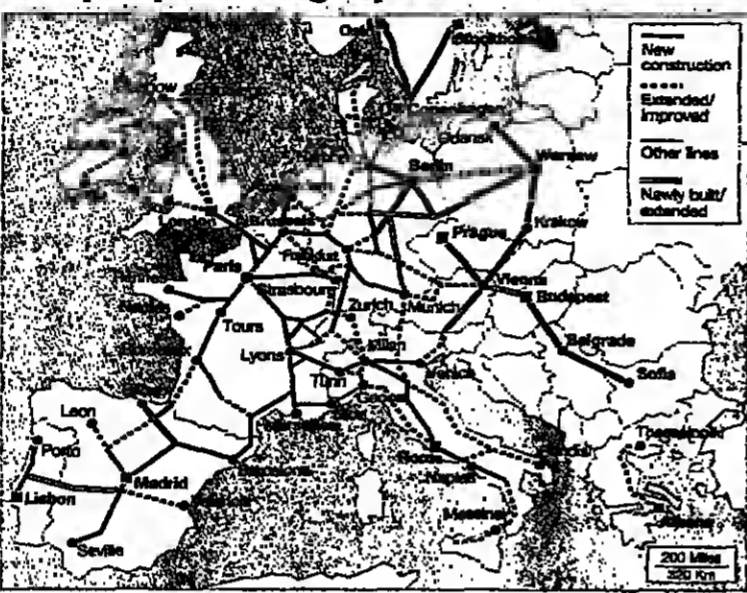
Since the launch of Eurostar services through the Channel tunnel in 1994, the rail link has taken away a large chunk of the airlines' traditional short-haul business between London and Paris and London and Brussels. It is the most striking indication for the future.

Elsewhere in Europe cross-border links are being established by previously purely national rail networks. A high-speed service between Paris, Brussels and Amsterdam started in June last year and direct high-speed services from Paris and Lyon to Turin and Milan last September.

The next link in the international chain is expected to be the extension of the Paris-Brussels-Amsterdam service to Cologne in 1999 and ultimately on to Frankfurt.

In the longer term, as part of the European Commission's ambitious Trans-European Network programme, there are plans for high-speed links between Berlin, Munich and through the Brenner pass to Verona; from Madrid via Barcelona and Perpignan to Montpellier; and from Paris via Metz and Strasbourg to Mannheim in Germany.

Europe's planned high-speed rail links



The reasons for the growing popularity of high-speed rail travel include improvements to the quality of the service and the convenience of journeys directly between city centres. Prices are also pitched to be competitive with air travel.

Congestion in the air and at many airports makes rail a more attractive option over medium distances, usually involving travel time of up to three hours. The distances over which trains can compete is increasing, however, with France raising

maximum speeds from 300kph to 350kph. Some rail engineers look forward to speeds of 500kph within a few years.

But the relationship between rail and air need not be competitive. A growing number of airports - including Paris Charles de Gaulle, Lyon, Seville and Frankfurt - have stations on the high-speed network which allow travellers to make rail-air journeys.

Apart from offering comparable or even greater speeds door to door, rail

travel allows more useable time for work or rest. On a purely national basis, high-speed rail travel has been making great strides. The French have taken the lead with their *trains à grande vitesse*. Germany, Sweden and Italy are also developing high-speed links.

The cost of upgrading rail track or building completely new lines to take the high-speed trains is high. France spends \$10m for each kilometre of dedicated high-speed line while Germany spends \$15m.

Even the French, with their commitment to high-speed rail travel, are rethinking their plans for further expansion of their network.

The cost of building trains which can operate across borders and take account of different power and signalling systems is also high. The Eurostar trains cost \$24m each.

Even more basic differences in train and track design impede connections between some countries.

Equally important as the track infrastructure and the trains are the systems by which tickets are sold. Eurostar continues to suffer from adopting a computerised system developed by the railways and not compatible with the systems used by most travel agents.

As the railways of Europe start to give their marketing departments the same attention they have traditionally given to their engineers the train will become a more attractive option to business people.

But making a seamless rail network from systems established in the 19th century will not be easy.

Attentions that cut both ways

Some years ago - I was in Buenos Aires to interview Domingo Cavallo, then finance minister of Argentina - I forgot my room key on the breakfast table in my hotel.

As I entered the lift a waiter jumped in and kissed me full on the mouth. He understood my message, he said, brandishing my key, and would accompany me to my room. I explained that I was leaving the hotel.

"Then why did you leave your key on the table?" he demanded, as I stepped out at the lobby.

Such displays can make for an experience that is at times trying, at times convenient for female business travellers in Latin America.

Unwanted advances aside, some women feel pampered by the attention they attract. Others are annoyed. Either way, it pays to know the ropes before trying to do business in the area.

When extra help is offered, say veteran travellers, take it. Lisa Sedelnik, a journalist with the magazine *Latin Finance*, says she often gets better service than male colleagues in Latin America.

Feminine persuasion can work wonders in the region. One executive said a little flirting helped her convince an airport customs official in

Brazil to release computers that had just been confiscated from a fellow male traveller.

Miriam Etcheberry, head of global funds for the fund manager John Hancock, believes that being taken less seriously than male counterparts can be a benefit. "I get the feeling that company managers in Latin America talk more to me because they think 'She's a woman, what harm can she do?'" she says. "I'm not as much of a threat to them."

While old-fashioned attitudes can smooth the way for some business transactions, being female can be inconvenient. At restaurants the bill is invariably handed to the male, which can be embarrassing if the woman is paying for the meal. Dining alone can be even more uncomfortable.

A lack of respect in the business world can be disconcerting for some female travellers. "Sometimes you get to a meeting and a lot of people there think you're just a secretary," says Kate Conrad, in charge of media relations for the internet radio station WorldSpace.

Security is another concern. Executives say, it is wise to have someone from the hotel meet you at the airport. And no one should

ever walk alone at night in Latin America.

Attitudes to female business travellers in the region are slowly changing. The Tamara hotel in Caracas and the Caesar Park in Sao Paulo have opened special floors for female business travellers, with amenities such as skirt hangers and make-up removal pads.

Yet women travellers are still unusual enough to attract attention in some areas, and many executives say they have developed personal survival techniques.

"When I run into trouble, I start speaking English," says Christine Hildebrand, who organises conferences for the Economist Intelligence Unit and is bilingual. "They're more likely to accept you if they think you're one of those powerful American women they read about."

The most useful piece of advice, however, may simply be to maintain a sense of humour. "Sometimes the men there are a pain, sometimes they're helpful," says Sedelnik. "Just remember that you're in another culture and take the good with the bad."

And try not to leave your keys on the table of the hotel restaurant.

Victoria Griffith

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THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

TODAY

Abbey National Treasury Gtd FRN 1999 \$13.90
Anglo-Eastern Plantations 3.45p
Anheuser-Busch \$0.24
Athena 1.1p
BOC 7 1/4% Nts 2002 \$14.70
BZW Cv Inv Tst 1.5p
Bentalls 2.18p
British-Borneo Petroleum Syndicate 5.25p
British Empire Sec & Gen Tst 0.25p
Brunner Inv Tst 2.6p
Channel Hldgs 1.1p
City Merchants High Yield Tst 2.5p
Daejan 16p
Dawson 2p
Densitron Int 1p
Derwent Valley 4.2p
Eksportfinans 0.9% Nts 1998 £531250.0
European Inv Bank 9 1/4% Ln 2009 £237.50
Gartmore Enterprise Tst 3p
Invesco Blue Chip Tst 5.48p
Invesco English & Int Tst 0.7p
Invesco Recovery Tst 4p
Investors Capital Tst Inc Ann Rest/Vtg 1.35p
Do Units 1.35p
Italy 5 1/4% Nts 1998 \$281.25
Do 6 1/4% Nts 2003 \$331.25
Kleinwort Charter Inv Tst 1.5p
Kleinwort High Inc Tst 2.6p
Liberty 1.85p
London Forfeiting 6p
LPA Inds 1.1p
Majestic Inv 3p
Merchants 2.35p
Murray Enterprise 1p
Murray Split Cap Tst 2.9p
Do Units 29p

TOMORROW

AlliedSignal \$0.28
Anglo Irish Bank FRN 1998 £160.68
Aristoc (BSR) 1.17p
Aut & Bradstreet \$0.22
Electronic Data Systems \$0.15
Electric China Clays 7p
Socot \$0.1
Fuj Bank Int Fin Perp Sb Gtd FRN \$16259.72
General Motors \$0.50
Halifax Bldg Scty FRN 1999 £10.20
Houston Inds \$0.375
IBM \$0.40
Morgan Grenfell Equity Inc Tst 2.3p
Northern Rock Bldg Scty Sb FRN 2002 £1960.24
Perpetual 30p
Portsmouth & Sunderland Newspapers 5.62p
Providing 2.1p
Quicks 4.25p
Sainsbury (J) 7 1/4% Nts 2002 £14.50
Sisk Ind 6p
Town Centre Scty 1.1p
TR Property Inv Tst 0.59p
Uppesala FRN 1998 \$289.51
Venturi Inv Tst 2.83p
Whitbread 8 1/4% Db 2021 £4.05137

WEDNESDAY JUNE 11

Denmark 3 1/4% Internal Debt DK\$50
Du Pont 7 1/4% Nts 1999 \$75.0
Fortis BFR127.0
HIT Entertainment 0.5p
Japan Dev Bank 9 1/4% Gtd Nts 1997 \$475.0
Kobe Steel 4.7% Bd 1998 \$470000.0
Kubota FRN 1997 Y21822.0
Lowland Inv 4.5p
MY Hldgs 0.8p
Mitsui 4.3% Bd 1997 \$430000.0
Do 4.6% Bd 1998 \$480000.0
Mycal 5.5% Bd 1998 \$550000.0
Nippon Sanso 7.2% Bd 1998 \$720000.0
Toyota Motor 6 1/4% Bd 1997 \$68.75

THURSDAY JUNE 12

Bankamerica \$0.61
Chapetow Racecourse 6p
Chatterton Int 1p
Eaton Fin 12 1/4% Un Ln 2014 \$6.25

FRIDAY JUNE 13

Atlantic Richfield \$0.7125
Cavendish Wates 0.8p
Dana \$0.25
Fairey 6.15p
Holt (Joseph) 45p
Pearson 10 1/4% Bd 2008 \$105.0

SATURDAY JUNE 14

Conversion 9 1/4% 2002 \$4.75

SUNDAY JUNE 15

Amer 6 1/4% Cv Sb Bd 2003 \$625.0
Caisse Nationale des Autoroutes 18 1/4% Gtd Ln 2006 \$400.0
Canadian Gen Inv \$0.075
Whitpool \$0.34

TODAY

COMPANY MEETINGS:
Asot Holdings, Merchant Centre, 1 New St Sq, EC.
New City & Commercial Inv Tst, 11 Devonshire Sq, 12.00
Trinity Hldgs, Nalcourt Hall, Nalcourt Lane, Berks, near Coventry, 11.00

BOARD MEETINGS:

Finals:
Acal
Amberley Group
Crichtley Group
Cropper (James)
Delancy Estates
Electrocomponents
Hambros Inv
Henderson
Hyde
Ranold
Safeland
Salvesen (Christian)
UMECO
Interims
Howle Hldgs, Ideal Hardware, Treest, Unidare

TOMORROW

COMPANY MEETINGS:
Abbot Group, Mirto Drive, Aitens, Aberdeen, 11.30
Bank of Scotland, Balmoral Hotel, 1, Princes Street, Edinburgh, 11.30
Bischof Mining, 8-10, New Fetter Lane, EC, 12.00

WEDNESDAY JUNE 11

COMPANY MEETINGS:
Ask Central, The Registry, Royal Mint Court, EC, 10.30
Bertam Hldgs, Tallow Chandlers Hall, 4, Dowgate Hill, EC, 12.00
Biocompatibles Hldgs, 20, Farringdon Road, EC, 12.00
Blockleys, Madeley Ct Hotel, Telford, Shropshire, 12.00
Holt (Joseph), Roebuck Hotel, Church Road, Fickston, Manchester, 12.00
Reunion Mining, 29, Gresham Street, EC, 12.00
Flowe (Evans), Tallow Chandlers Hall, 4, Dowgate Hill, EC, 12.30
Transtec, Royal National Hotel, Russell Sq, WC, 11.00
United Energy, 62 Threadneedle St, EC, 11.00
BOARD MEETINGS:
Finals:
Bradford Property Tst, Bristol Water Hldgs, British Land Co, Ensor Hldgs
Interims:
Dennmans Electrical, Expro Int, Fountain Forestry, Grange Group, Merchant

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Interims:
Dennmans Electrical

OPENINGS

Two through June 10, 11 and 12, 1997, at the Royal Opera House, Covent Garden, London. Tickets: £10-£120. Tel: 020 7306 2000.

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ALDEBURGH
The Country of the Blind, a new stage work by Mark-Anthony Turnage based on a short story by H.G. Wells, receives its

ARTS

premiere on Friday at Snape Concert Hall - the opening event of the 50th Aldeburgh Festival. On Sunday, Kent Nagano will conduct the Britten-Pears Orchestra in the first performance of Britten's Double Concerto for Violin and Viola, composed in 1932 but never performed in his lifetime.

NEW YORK

The first retrospective of the work (left) of Vladimir and Georgii Streltsov, prominent avant-garde designers in 1920s Russia, has been organised by the Museum of Modern Art. The exhibition, opening tomorrow, includes Constructivist sculptures, paintings, drawings and set designs as well as the innovative



cinema posters for which the Streltsovs are most famous.

BUENOS AIRES

The New York Philharmonic Orchestra, under its music director Kurt Masur (above, right), give its first of three concerts tomorrow at the Teatro



Colón, as part of a Latin American tour which will include Bogotá and Medellín over the next two weeks.

LAUSANNE

The Musée Cantonal des Beaux-Arts has organised an exhibition to mark the 50th anniversary of the postwar group of experimental artists who derived their movement's name from the three cities: Copenhagen, Brussels and Amsterdam - from which they originated. The show opens on Friday and runs till mid-September.

to mark the 50th anniversary of the postwar group of experimental artists who derived their movement's name from the three cities: Copenhagen, Brussels and Amsterdam - from which they originated. The show opens on Friday and runs till mid-September.

BERLIN

Valter Kraljberg (left), Russian-born music director of the Bournemouth Symphony Orchestra, gives his debut concert with the Berlin Philharmonic in the Philharmonie on Friday, Saturday and Sunday. The programme includes Beethoven's Ninth Symphony.

Handel, loathed Melancholy and blackest Midnight," intones the tenor soloist in his opening words. And hence they smartly go in Mark Morris's irrepressibly buoyant dance entertainment, happily slapping each other on the thighs and swapping partners as they go.

Handel is not often so much fun. It was back in 1988 that Morris hit upon the idea of turning *L'Allegro, il Penseroso ed il Moderato* into a ballet. It was a hit with its first audiences at La Monnaie in Brussels and Morris's version has subsequently travelled widely, taking in the Edinburgh Festival in 1994 before arriving last week at the London Coliseum after nearly a decade on the road. By now it has become something of a modern classic in the dance world.

So this is a good moment to take stock and look at Morris's achievement from the musical point of view. After all, his *L'Allegro* has turned up in London as part of the standard English National Opera season, sandwiched between *Carmen* and *La Traviata* (and is a good deal more enjoyable than the current ENO productions of either, I hear opera cynics say). It cannot exactly be described as an equal match between dance and opera, because Handel's score is strictly an ode, but the two halves are still of near equal importance.

Morris has supplied dancers and sets, ENO its house chorus and orchestra, together with five guest solo singers and conductor. Presumably there must be a bit of compromise here, as a conductor with a will of his (or her) own could easily have the dancers galloping about at twice their usual pace or, alternatively, balanced precariously on tiptoe, desperately longing for the next chord. Jane Glover seemed to set speeds that kept the dancers happy and obtained a neat, rhythmic style from the orchestra, even if the phrasing was not particularly expressive - flat-footed, perhaps, would be the word.

With the dancers occupying the whole stage, the solo singers and chorus are accommodated in the pit, which means the words have little chance of getting across. It is a hard life for the soloists down there, as the acoustics rob them of any bloom on the voice, but ENO's starry quartet in any case seemed to use less inspiring than their names might have suggested. The outstanding one of the five was Janice Watson, whose singing had a quality of tone from top to bottom and an ability to mould notes into long lines that was worth hearing on its own.

Of the others, Ashley Holland

was the sort of strong and decisive bass, with surprisingly nimble coloratura, that used to sing in old-style performances of *The Messiah*. Michael Chance, getting the most poignant music as the counter-tenor, phrased with exemplary sensitivity. Ian Bostridge was disappointing in the tenor solos, not nearly sharply focused enough in the upper half of the voice, and Susan Gritton, the second soprano, tended to pick at individual notes, but, hidden where they were, I doubt many people in the audience

were really paying them much attention.

All eyes were on the stage. As a music critic, I am hardly in a position to comment on the dance, except to say that as a visual expression of what we were hearing, I found it more enjoyable than many - even most - of the Handel opera stagings that we have to sit through these days. Morris has understood one basic requirement: that the actions must come from the music. *L'Allegro* is all dance rhythms at heart, and he simply

works from those, creating movements that are in harmony with the musicians. To complement the score, he has devised mirror images, geometrical patterns, abstract visual forms, and just a couple of representational scenes: the hunt, with the dancers playing the trees, the stag and the huntsmen, and a couple of hounds which stop to pee on the bushes, is very camp - but also very funny. It all works so well that Morris should surely consider turning his hand to some of Purcell's Odes as well.



A work of idealism as well as of dance delights: scene from Mark Morris's ballet 'L'Allegro' at the Coliseum

Having fun with Handel

Richard Fairman on *L'allegro, il penseroso ed il moderato*

Cascades of dance explore the poetic vision

explore the poem's vision and the music's forms, and unite these elements in marvellous fashion. The language may seem illustrative - and how touching when we "see" a hunt in a forest, with trees and dogs and quarry - but it is set within a complex scheme that brings shapes and patterns ranging through and across the music and our imaginations. (William Blake was an inspiration to Morris. But there are groupings

reminiscent of Poussin, poses that evoke Renaissance theatre, antique frescoes). Jean Anouilh in her brilliant book about Morris speaks of his "little memory-of-grade-school mime dramas", which exactly fixes the sweet naïveté of certain moments. As we see throughout, clarity and frankness of response are among his dance-virtues. But so is grandeur of scale. And everywhere the movement is generous, bursting with life and

with the full-toned dynamics of his dancers.

Dance pours over the stage, circling, dispersing, mirroring itself - a trio for three women is amplified by three more shadowy trios behind pauses which are like memories, echoes - and constantly flowering afresh. It is a language of apparent simplicity, and one made wonderfully approachable for us by Morris's use of dancers whose physique is not always

conventionally dancer-like. Part of *L'Allegro*'s appeal lies in this democracy, albeit Morris's artists are grandly gifted, because we sense that they are people like us. And when, to the closing pages of the score, the cast race over the stage in joyous lines, then form three rings circling one inside the other, we see an earthly community that is also something more celestial. Morris's *L'Allegro* is a work of idealism as well as of dance delights.

The staging looks transcendent at the Coliseum, Adrienne Lobel's luminous designs magnificently lit by James Ingalls.

Clement Crisp

Musicians with collective élan

The Chamber Orchestra of Europe is on a rare UK visit. Andrew Clark reports

Nearly half the musicians are British, the administrative headquarters are in London and it gave its first concert at the Merchant Taylor's Hall in the City. But in the 16 years since, the Chamber Orchestra of Europe has failed to build a following in the UK. "We've never had any problem making an impact on the continent under the noses of people who really know their music," says Peter Readman, the COE's chairman, "so we find it a little odd that we have no profile in London."

The orchestra's Barbican concert tonight with Bernard Haitink is its sole UK appearance in 1997. Next year it will give concerts at the Edinburgh festival but none in London. There has been talk of trying to re-establish a residency at the Barbican, where the COE appeared regularly in the early 1990s, but Readman doubts whether it can be made to work. "Artistically and financially, London doesn't seem to be viable for us."

Readman should know. He has acted as unpaid steward of the orchestra's fortunes since its inception, and says the COE has established successful residencies only in cities with halls tailored to an orchestra of classical dimensions. London lacks such a hall. The other problem is the COE's name. "The words 'chamber' and 'Europe' are a turn-off in Britain," says Readman. "If we were starting again, we'd choose a different name."

As long as it is in demand elsewhere, the COE can hardly complain. Its guiding principles are musical and financial independence. Contrary to widespread belief, it receives no subsidy. The vast bulk of its £3m turnover comes from concert and recording fees. Each of its 50-odd members is paid the same; all are expected to give between 100 and 120 days of the year to COE projects - a loose arrangement which has helped the COE to maintain its collective élan.

Most of the original members were alumni of the European Community Youth Orchestra who wanted to continue working together. The idea was to make music like an expanded string quartet - drawing on the experience of eminent conductors and soloists, but in a chamber music format. In the early years, Claudio Abbado opened doors in European capitals, and the COE's award-winning recordings with him helped to establish its name. In the 1990s, the orchestra has been more regularly identified

with Nikolaus Harnoncourt. The key to the COE's style, however, is diversity: it allows no single conductor to dominate. That explains its chameleon-like quality. "We look for conductors who have something new to say, juxtaposed to what we've used to," says double-bass player Dana Roberts. "Contrasts are important to us - to show how different the orchestra can sound, to delve into the pieces in the way each conductor sees it. We're not beholden to anyone; we're a group with something to say. It's a different atmosphere to most orchestras, where everything is focused on one conductor."

That atmosphere can be quite forbidding. As a self-motivated ensemble, the COE is renowned for its strong opinions. This has resulted in some spectacular fall-outs: Lorin Maazel alienated the musicians during a tension-racked US tour, and there were heated arguments two summers ago in Salzburg, when some had problems with Harnoncourt's interpretation of *Le nozze di Figaro*.

Readman had to act as peacemaker on that occasion - but the fact that the COE follows conductors' indications to the letter is one of its distinctive strengths. It explains why, in the COE's hands, the Schubert interpretations of Abbado and Harnoncourt sound so polarised, why the orchestra can play Sibelius with Paavo Berglund as enthusiastically as it does Haydn with Roger Norrington. Tonight's concert is Haitink's long-awaited COE debut. In 1988 there will be a Zimmermann project with Heinz Holliger, and there is talk of a New York residency.

Compared to its London debut in 1981, the COE today looks middle-aged: it still has 28 original members. What they may have lost in youthful idealism, they have gained in experience. The basic premise remains mutual respect within the ensemble. Readman sums up the orchestra's mission as "an unending quest for projects where we think the COE can do something worthwhile and generate enthusiasm. The sadness is we haven't yet succeeded in the place where most of us live."

Tonight's concert at the Barbican features works by Mozart, Wagner and Brahms. Haitink and the COE take the same programme to Frankfurt tomorrow, Brussels on Thursday, Paris on Saturday and Sunday, and Amsterdam next Monday.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

AUCTION
Christies Amsterdam Tel: 31-20-5755255
● 19th and 20th Century German posters: sale featuring illustrations of political campaigns, food and drink, exhibitions, fashion, cars, travel and cigarettes. Highlights include pieces for the 1936 Olympics; Jun 11

EXHIBITION
Van Gogh Museum Tel: 31-20-5705200
● Vienna 1900: Portrait and interior: exhibition featuring paintings and applied arts from Vienna, spanning the years 1870-1918. Highlights include works by members of the Wiener Secession movement and portraits by the Expressionist artists Egon Schiele and Oskar Kokoschka; to Jun 15

BARCELONA
EXHIBITION
Fundació Joan Miró Tel:

34-3-3291908
● Jackie Brookner: display by the New York artist who works with clay; to Jul 27

BASEL
EXHIBITION
Kunstmuseum Basel Tel: 41-61-2710220
● Dürer Holbein Grünewald: display featuring 180 etchings from the 15th and 16th centuries, including works by Dürer and Grünewald; to Aug 31

BERLIN
CONCERT
Konzerthaus Berlin Tel: 49-30-203090
● Orchester der Deutschen Oper Berlin: with conductor Markus Sterz and viola-player Kim Kashashian in works by Rachmaninov, Bartók and Schumann; Jun 11

BRUSSELS
EXHIBITION
Jubelparkmuseum Tel: 741 72 11
● Art Nouveau: exhibition featuring furniture and sculptures by a number of Art Nouveau exponents, including Gustave Serruys-Bouy, Paul Hankar, A.J. Strymans and Georges Habé; to Sep 14

COPENHAGEN
EXHIBITION
Charlotteborg Exhibition Hall Tel: 45-33 13 40 22
● Association Danoise

Exposition: large-scale exhibition of work by Danish artists, including Mogens Andersen, Mette Barker, Stig Brøgger, Egil Jacobsen and Bent Sørensen; to Jun 22

FRANKFURT
EXHIBITION
Städtisches Kunstinstitut Tel: 49-69-905088-115
● Pablo Picasso - Suite Vollard: display selected from Picasso's Suite Vollard, a series of 100 works produced in the early 1930s; to Jul 27

LONDON
CONCERT
Royal Albert Hall Tel: 44-171-5898212
● Royal Philharmonic Orchestra: with conductor Daniel Gatti and cellist Mario Brunello in works by Tchaikovsky and Strauss; Jun 12

EXHIBITION
British Museum Tel: 44-171-6381555
● The Ceramic Art of Sawada Chitajo: display featuring over 1,000 pieces by the Japanese artist, covering his work during the 1930s and later paintings on porcelain, based on the traditional porcelain of the Arita and Imari areas; to Aug 7
● Spink & Son Tel: 44-171-6307888
● The Light of Compassion: selling exhibition featuring metalwork, woodcarving, lacquer, painting and weaving, used to celebrate spirituality in Tibetan and Nepalese Buddhist culture;

from Jun 11 to Jul 11
Victoria & Albert Museum Tel: 44-171-9388500
● The Cutting Edge: 50 Years of British Fashion: exhibition tracing the history of British high fashion 1947-1997 by exploring four distinct themes: Romantic Tailoring, Bohemian and Country. Over 150 garments drawn from the V&A's Dress Collection are displayed; to Jul 27

LOS ANGELES
EXHIBITION
Huntington Library, Art Collection and Botanical Gardens Tel: 1-818-405-2100
● Mark Catesby: Drawings from the Royal Collection, Windsor: exhibition of work by the 18th century English naturalist who produced the first major illustrated publication on the flora and fauna of the British colonies in North America; to Jul 20

MADRID
CONCERT
Fundación Juan March Tel: 34-1-4354240
● Hermanos Pérez-Molina: the pianist performs works by Haydn; Jun 11

EXHIBITION
Museo Nacional Centro de Arte Reina Sofía Tel: 34-1-4875062
● Gerardo Rueta: display of collage work from the early 1980s; to Jun 18

NEW YORK
AUCTION

Sotheby's Tel: 1-212-608-7000
● Important Jewellery: highlights include a Cabochon emerald and diamond pendant by Tiffany and an 18-karat gold, enamel and diamond bangle bracelet by Marina B.; Italy; Jun 11

CONCERT
Alice Tully Hall Tel: 1-212-875-5050
● The Little Orchestra: with conductor Dino Anagnost, soprano Julie Newell and Kimberly E Jones and mezzo Melaine Sonnenberg in works by Vivendi; Jun 11

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-6500
● The Iris and B. Gerald Cantor Roof Garden: special open-air display of 20th century sculpture from the Museum's collection. Installed in a roof-garden which offers some spectacular views of Central Park and the New York City skyline; to Oct 30

PARIS
CONCERT
Cité de la Musique Tel: 33-1 44 84 45 00
● Frédéric Chiu: the pianist performs works by Prokofiev and Chopin; Jun 12

EXHIBITION
Musée du Louvre Tel: 33-1 40 20 50 50
● Marjana Lipovsek: the mezzo-soprano, accompanied by pianist Anthony Spiri, performs works by Schubert, Berg and Brahms; Jun 11

DANCE

Théâtre National de l'Opéra, Opéra Garnier Tel: 33-1 42 66 50 22
● Ballet de l'Opéra National de Paris: performs *Serenade* choreographed by Balanchine to music by Tchaikovsky, *Dark Elegies* choreographed by Tudor to music by Mahler and *Le Sacre du Printemps* choreographed by Bausch to music by Stravinsky; from Jun 9 to Jun 14

STRASBOURG
CONCERT
Théâtre Municipal de Strasbourg - Opéra du Rhin Tel: 33-388 75 48 00
● Don Carlos: by Verdi. Conducted by Paolo Olini and performed by l'Orchestre Philharmonique de Strasbourg; from Jun 10 to Jun 23

VIENNA
CONCERT
Konzerthaus Tel: 43-1-7121211
● Wiener Philharmoniker: with conductor Riccardo Chailly and the Slovak Philharmonic Choir in works by Schumann and Janáček; Jun 10
● Orchestra of the Age of Enlightenment: with conductor Sir Simon Rattle in works by Schubert and Beethoven. Part of the Nationales Musikfest; Jun 11

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Financial Times Business Tonight

COMMENT & ANALYSIS



Philip Stephens

Budget balancing

Gordon Brown may wish to raise taxes but Tony Blair is determined to keep faith with Middle England

The political parameters for next month's Budget have been set in 10 Downing Street. Tony Blair wants nothing which would stir the accusation that New Labour had broken faith with middle England. Nor, beyond a windfall tax on privatised utilities, must the Budget call into question his love affair with business. Swinging tax increases are out.

The prime minister also wants the spotlight to stay on his welfare-to-work programme: the windfall tax on one side financing new employment opportunities for 250,000 young and long-term jobless on the other.

This sharp focus on welfare reform makes sense. Mr Blair's administration has had a tumultuously successful start. But it needs to sober up a little. It may be fun to grab the headlines but, across most of Whitehall, the gears of government have barely engaged. The line between slick presentation and gimmickry is perilously thin.

The British political system has an inherent, and dangerous, bias favouring the grand gesture over quiet competence. Mr Blair and his colleagues would do well to concentrate now on the careful detail which makes for effective government.

The word in the Treasury is that Gordon Brown, the chancellor, takes a rather more hawkish view on taxes. His pre-Budget audit of the public finances is calculated to put a pessimistic gloss on the legacy of John Major's government. I suppose you cannot blame him. He could hardly announce that he had inspected the books and found them in perfect condition.

He is playing, though, a dangerous game. His aides want to trim (from 2.5 to, say, 2.25 per cent) the Treasury's estimate of the economy's long-run potential growth rate. The change

would allow Mr Brown to don the mantle of prudence in his assessment of the outlook for public borrowing. But there would be a heavy cost. The newly-appointed monetary monitors at the Bank of England would have the perfect excuse for still higher interest rates to slow the pace of the present upswing.

Of course, Kenneth Clarke, Mr Brown's predecessor, was not above slipping the odd dubious assumption into his economic forecasts. Ministers have already found a gaping £200m hole in the education budget. And Mr Brown will know by now that, however hard he tries, it will be impossible to stick to Mr Clarke's public spending arithmetic.

The government pretends that the spending target for next year is immutable. This is transparent nonsense. The Treasury can give the negotiations another name, but it has no option but to re-open Mr Clarke's settlement.

For one thing it cannot avoid several sensitive decisions - on local authority finance, public sector pay and social security benefit levels to name but three. For another, Mr Brown's cabinet colleagues will not surrender the right to bid for the Treasury's contin-

It may be fun to grab headlines but the gears of government have barely engaged. The line between slick presentation and gimmickry is perilously thin

gencies. David Blunkett at education and Frank Dobson at health are at the head of the queue. This is tricky. Mr Brown can hardly say he is raising taxes to pay for an overshoot in spending which he is pledged to resist.

The prospects for public borrowing have further clouded his prudent pessimism. The huge deficit which sank the Major government is fast disappearing. In Bonn and Paris, they are struggling to cut their deficits to 3 per cent of national income. If Mr Brown does nothing, Britain's will soon slip below 1 cent. To borrow a phrase, it can only get better. The Green Budget from Goldman Sachs and the Institute for Fiscal Studies foresees a healthy surplus within two or three years.

There is still a powerful case for higher taxes. By changing the fiscal/money mix, Mr Brown could shift demand in the economy from consumer spending towards investment. He would rob the Bank of the pretext for higher interest rates. He might also prick the speculative bubble under the pound before it does irreparable damage to industry.

It's funny how when sterling tumbled out of the European exchange rate mechanism, every senior official in the Bank and Treasury said its rate against the D-Mark had been set too high. Now it is back to the same level, we hear not a murmur. But then one has only to glance at the catastrophes of the last 20 years to see a constant threat - an official failure to respond to unsustainable swings in sterling.

I somehow doubt, though, Mr Blair will see any of this as sufficient cause to break his promise to middle England. Big business might applaud, but he has no intention of losing the trust of the aspirant classes

who put him into 10 Downing Street. My guess is that there will be a net increase in the tax burden but it will be relatively modest and camouflaged by a series of switches between different sources of revenue.

Mr Brown does not have to look far for such tricks. I would be surprised if he does not reduce, if not scrap, advance corporation tax. The pension funds would equal, but the proceeds - upwards of £2bn - could be returned to business in improved investment incentives and help for small companies.

I would be horrified if Mr Blair's injunction prevents the chancellor from scrapping mortgage interest relief, at a saving of £2.5bn a year. No doubt Mr Blair is uneasy about the idea of robbing the Sierra-owning classes of this particular privilege. But, along with the proceeds of higher green and tobacco taxes, it could be recycled into a big cut in income tax - including a 10p starting rate.

If he is serious about easing the tax/benefit trap, Mr Brown will also cut National Insurance contributions for the low paid. Reduced allowances for rate taxpayers would give him the money. And, in this Budget or the next, he will want to recast the tax treatment of savings vehicles like personal equity plans.

All in all, Mr Brown has ample scope to make a splash. On past form, he will grab the chance. But a word of caution. With his hands tied by Mr Blair and interest rates set by the Bank, the Budget's overall impact on the economy is likely to be slight. The chancellor would be wise to resist the temptation to dazzle too much. Budgets which attract adulatory first night notices rarely stand the test of time. Better for Mr Brown to show us he has stepped into the mind-set of government.

LETTERS TO THE EDITOR

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W German reform crucial to post-war recovery in Europe

From Dr Rasmus Salley

Sir, It is often argued that US benevolence through Marshall Aid, and multilateral institutions like the Organisation for European Economic Co-operation and the European Payments Union, were instrumental in bringing about post-war reconstruction and recovery in western Europe ("Marshall's lasting legacy", June 3). However, this explanation overlooks another crucial factor - the role of unilateral economic policy reform in West Germany.

Let it not be forgotten that the pace-setter of European policy reform was Ludwig Erhard's sweeping economic liberalisation programme initiated in June 1948, swiftly followed by further domestic reforms and a healthy dose of unilateral trade liberalisation in the first half of the 1950s. These measures set an example

which other, initially recalcitrant, countries, especially France and the UK, gradually followed. It can indeed be argued that the German example was at least as important as the role of the US and regional organisations in leading to intra-European trade liberalisation and the move to the collective convertibility of European currencies in 1958.

This episode of unilateral, "example-setting" policy reform is of great relevance today. The last decade-and-a-half has witnessed a spreading process of unilateral policy reform, including trade liberalisation. Most commentators tend to view liberalisation in the international economy through the lens of inter-governmental negotiations and international organisations.

What gets left out of the picture is the recent surge of unilateral trade liberalisation

not only of the West German example in the 1950s, but also of British unilateral free trade in the 19th century and the enduring precepts of classical political economists going back to Adam Smith.

The irony of current trade policy reform is that its most innovative and exciting examples do not come from the old west, and certainly not from the US and the EU; rather they spring from developing and transition countries as far afield as Chile, Bolivia, the Czech Republic and Estonia, to pick out but a few of the outstanding cases of unilateral liberalisation.

Rasmus Salley, lecturer in international political economy, London School of Economics, Houghton Street, London WC2A 2AE, UK

UK should be in on weak euro

From Lord Cobbold

Sir, There was a curious twist in Mr Major's advice to the new prime minister to seek a delay at Amsterdam in the implementation of the single currency. He argued that recent events in Germany and France meant that a 1999 euro would be weak, thus damaging British competitiveness. This, he hastened to add, was because sterling would not be a member and would strengthen, thus threatening our exports.

A weak euro vis a vis the dollar and the yen might, however, be just what is needed to revive employment in Europe and would not necessarily be inflationary. How many times have we listened to Tory ministers extolling the benefits of the 1992 devaluation and the somewhat unexpected lack of inflation that followed?

Surely, if there is to be a weak euro boosting global competitiveness of participating countries, the UK should be one of them. It would be hedged both ways: a weak euro leading to global competitiveness; a strong euro preserving current competitiveness within the single market. If, for lack of qualifications for 1999, postponement becomes unavoidable, advantage should be taken to maintain technical preparations and shorten the transitional phase to 2002, which has always been the danger zone.

Finally, with the UK's financial market strengths, it is really out of bounds to contemplate a monetary union that starts with Britain and France (and others), with Germany joining later as soon as full effects of re-unification have worked through its economy?

Cobbold, Knebworth House, Knebworth, Herts SG3 6PY

India must be included in summit

From Mr Adrian P. Hewitt

Sir, "UK will not invite Burma" (to the Asia-Europe summit, to be held in the UK next year) reads your headline (June 3). But nor will the UK be inviting India, if India continues to be excluded from Asia-Europe Meeting just as India was excluded from the EC's Lomé Convention more than 20 years ago and remains

excluded from the least developed countries which will be allowed to receive special trade preferences blessed by the World Trade Organisation.

The government cannot maintain a policy and host a summit which fails to include India in the concept of "Asia-Europe", just as it makes no sense to have a development co-operation

policy committed to the elimination of poverty but which contrives to exclude the country which has more poor people than any other.

Adrian P. Hewitt, deputy director, Overseas Development Institute, Portland House, Stag Place, London SW1E 5DP, UK

Clear that there is no windfall for BA

From Mr Robert Ayling

Sir, Mr Nellen's suggestion (Letters, May 28) that British Airways enjoys a windfall subsidy as a result of below-market-rate pricing at Heathrow is based on a defective reading of the Monopolies and Mergers Commission's report on the BAA.

The full quotation reads:

"The airports, particularly Heathrow, were in effect privatised on the basis that the ability to earn above average returns on assets should accrue to airlines operating in a competitive environment rather than to the shareholders of BAA, which enjoys a substantial measure of monopoly power." The words which Mr Nellen omitted

are those in italics.

The full quotation makes it clear that if anyone receives a "windfall" it is the passenger or shipper.

Robert Ayling, chief executive, British Airways, Speedbird House, Heathrow Airport (London), Hounslow TW6 2JA, UK

The FT Interview • Lawrence Bossidy

A contemporary veteran

Success relies on four processes, AlliedSignal's chairman tells Tony Jackson

At 61, Mr Larry Bossidy represents veteran US management at its most fearlessly effective. Since he took over as boss of the diversified manufacturer AlliedSignal six years ago, its shares have outperformed the US market by a factor of two, and its market value has quintupled to \$2bn.

Mr Bossidy spent the previous 34 years with another diversified US manufacturer, General Electric. As he remarks, GE has a high reputation for producing chief executive officers. This he attributes mainly to its habit of moving managers systematically around its various businesses, from automotive and medical to plastics and financial services.

"Managers need to get as wide an exposure to different industries as they can," he says. "You show me a person who's been historically in only one industry and I'll show you a more narrow-minded person: not because of intellect, just because of experience."

In an era of intense specialisation, this might seem slightly old-fashioned. So might AlliedSignal's conglomerate structure. The company falls into three divisions: automotive components, aerospace and materials businesses ranging from high-performance alloys to engineering plastics.

The recent vogue for demerger might thus suggest the company as a natural breakup candidate. But as the share price shows, the structure plainly works. What is the secret?

Processes, Mr Bossidy says. "We have four processes which cut across everything: an intense people process, which obtains people, trains them, appraises them and promotes them; a good strategic planning process; a good operating plan or budget process; and a good cus-



Larry Bossidy: a need to be strategic

tom satisfaction process. Those are the same across the whole company." Granted, he says, every company would claim to have something similar. "But the trick is how intense the processes are. What do they yield?"

The aim is to create a common set of values across the organisation. "You used to have conglomerates: send the cheque in every month, talk to you at the end of the year, give you a bonus or fire you. We don't do this. We're actively involved in these businesses, every day."

This emphatically does not mean second-guessing his managers. "I don't participate in price decisions, or factory scheduling. I am in no position to do that. You have to pick the things you can influence, and get out of the way for the rest. I can influence people, because I know them. I can influence strategy, and the customer satisfaction process."

The recurring emphasis on strategy might also seem a touch old-fashioned. In Mr Bossidy's younger days, GE was a prime exponent of the method which gave strategy a bad name: the thick annual document, packed with figures and projections, which was then filed and forgotten.

There should still be a document, Mr Bossidy argues, but with a difference. "There's never been more

need to be strategic, and there's never been a worse time to put together those god-damned books. You don't have time."

What is needed is a much smaller document, which should be on every general manager's desk for daily consultation.

It should have a few pages of text, covering the market position and the likely future behaviour of competitors, and targets for productivity. It should also set out likely obstacles to the strategy and the means to overcome them.

Another principle he has brought from GE is the need to learn from other companies. "You don't want to go through a business review unless you ask the question, who have we benchmarked, and what do they do better than we do?"

Remember, he says, that companies are naturally introspective. "Most of the failures you've seen in cor-

porate business are basically isolated companies. They don't understand what's going on around them."

The same applies to individuals. "Never before in business have you had to invest so much time in becoming contemporary. Even if you sit at the same desk for the rest of your life, you'd better get a lot of new skills all the time."

At the other end of the scale, something similar applies to nations. As a supplier to European corporations, Bossidy wants a strong Europe. But Europe worries him.

"If you look at the job migration out of Germany, it's serious. Their business doesn't get any better by taking jobs out of Germany. Their companies might get better, in the sense of being in lower-cost locations, but they don't address the fundamental problem. I don't think the French do either."

The UK, he says, is different. "They've been through some tough times and they're in a good position. I can't believe Mr Blair is going to come in there and foul it up."

The problem is not one of managerial talent. "You see French and German businessmen who are clearly as capable as any in the world. It's a question of government whether they will take the requisite steps to allow their companies to be more competitive."

His working assumption, though, is that this will happen eventually. This leads him to a cautious conclusion for the US. "Twenty years ago, there was going to be no more manufacturing in this country. Now, America has never been more competitive. But that isn't going to be here for ever."

"I'm convinced that in whatever way, the Germans will come back, and the French. We know the Japanese are going to come back. Certainly, the Chinese and the Indians are going to be major world competitors. So though things are good now in the United States, this is the time you lose it. We'd better tend to our knitting, or these days will change, and change fast."

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Monday June 9 1997

A new map of Europe

It is still too soon to measure the effects of the twin earthquakes which hit France and Germany in the last fortnight: the Socialist election victory in France, and the German government's suicidal attempt to override the Bundesbank on an issue of financial credibility. Both events signal an important political change, but only time will show how far-reaching that change is. Moreover, it is unclear whether the two events point in the same direction.

Certainly, they have both severely damaged the authority of the top political leaders in Europe's two leading powers: men who are, or were, the central figures in the present phase of European integration.

In Mr Jacques Chirac's case, the damage seems near-terminal. His ill-judged dissolution of parliament has reduced him, at a stroke, from all-powerful head of government to little more than a constitutional monarch. True, his predecessor showed in 1986-88, ironically at Mr Chirac's own expense, that this position can be exploited both to keep control of foreign policy and to lay traps for the government. But Mr Chirac is less well placed to do this than François Mitterrand was, not least because his self-inflicted wounds have largely destroyed his prestige even among his own supporters.

Mr Helmut Kohl, by contrast, remains head of government, facing an ill-led opposition yet to choose its candidate against him in elections still over a year away. Is he fatally damaged by his blunder over the revocation of the Bundesbank's gold reserves, as Mr John Major is now perceived to have been by

"Black Wednesday" in 1992? Perhaps, but his political obituaries have been written many times before, only to be torn up again when he bounced back.

At first sight, the two events may both seem to point to a softer interpretation of the public sector deficit criterion for membership of the planned European monetary union (Emu). Barred from offsetting the increased value of Germany's gold reserves against this year's deficit, Mr Kohl and his finance minister, Mr Theo Waigel, will now find it almost impossible to hold the deficit to 3.0 per cent of gross domestic product, as promised. Meanwhile the new French government's programme also seems irreconcilable with the 3 per cent target, as does - at least for Italy - its demand that southern Europe be included in the first wave of Emu members.

But that demand is generally assumed to be more than the German public will swallow. Mr Kohl's problem is that, while his defeat may make it more necessary to relax the deficit criterion, it also makes it politically harder. German voters, never fully convinced that swapping the Deutschmark for the euro is a good bargain, are now more suspicious than ever. Mr Waigel, especially, will have great problems with his Bavarian party base if he now abandons his previous insistence that "3.0 means 3.0".

It is setting hard to see how these contradictions can be resolved without postponing the deadline. Mr Kohl appears to think it morally impossible for Germany to propose that, but perhaps if France were to do so he would gratefully accept.

Bertie's turn

Mr Bertie Ahern, leader of Ireland's Fianna Fáil, appears to have done just enough in the Irish election to form the next government. But it was scarcely an enthusiastic endorsement from the electorate, and he will not have an easy time in office. The chances are that he will have to rely on the votes of a handful of unpredictable independents to have a majority.

At one level, the Irish voters seem to have reverted to their old divisions, returning to Fianna Fáil and the rival Fine Gael, the two hostile factions of the Irish civil war in 1921. They shunned the "new" ideology-based parties: Labour on the left, and the Progressive Democrats on the right. But some protest votes were cast for the independents, and the solitary Sinn Féin success in the north.

Mr John Bruton, the outgoing Taoiseach, can console himself

that Fine Gael won more support than in the 1992 election, a small reward for its successful management of the Irish economy. Fianna Fáil improved, largely thanks to better management of its votes in the complex proportional representation system. But it failed to gain 40 per cent of the vote, its second worst result since the Irish state was founded.

Ideological consistency would argue for a grand coalition of Fianna Fáil and Fine Gael, both conservative parties whose differences are largely historical. It won't happen. Mr Ahern, for one, has dismissed the idea out of hand. He either has to woo Labour back into his camp, which seems rather unlikely after the bitter dissolution of their last coalition, or he has to win the support of the independents. The question is how high a price he must pay.

Tory dilemma

In the immediate aftermath of their worst defeat since the 1830s, the UK's Conservatives have been in denial. All manner of explanations have been offered as to why their seemingly unbreakable hold on power snapped catastrophically. But, understandably perhaps, the party has yet to address the future, to map out the long and arduous route towards political recovery. That process should begin this week with the first ballot to choose a new leader.

There is something in most of the reasons advanced for the Conservatives' defeat at the hands of Mr Tony Blair's New Labour. After 18 years there was a powerful mood for change. The voters were appalled by allegations of sleaze (real and perceived). Mr John Major had traded national leadership for party management. Factionalism over Europe convinced the impression that Tory MPs put ideological infighting before the public interest.

Most damning of all, though, was the electorate's conclusion that the government had lost all touch with their world. The bald rhetoric of choice and private provision ran directly counter to deep unease about education, health, welfare and crime. Mr Blair's promise of hard-edged Tory economics and compassionate social policy was an unbeatable offer. Europe, the fatal obsession of Mr Major's government, hardly figured.

This is the analysis that the party's 164 MPs must take on board in the choice of a new leader. A lurch to the right or to extreme Euroscepticism would simply confirm the electorate in its judgment. Nor, after Mr Blair's embrace of economic

orthodoxy, can the next election be fought on the old dividing lines of left and right. Instead Conservatives must show they have a better grasp of the potential of the market economy and can be more creative in meeting the social aspirations of middle Britain. The next election, as the last, will be won and lost in the centre ground.

Of the five candidates for leadership, Mr William Hague offers youth and a fresh start, while Mr Peter Lilley promises intellectual edge. Publicly at least, both have been prepared to temper their Euroscepticism, a shift that Mr Michael Howard and Mr John Redwood have been reluctant to make.

Mr Kenneth Clarke, the former chancellor, has been alone, however, in confronting openly the real lessons of defeat. He has the experience and the pugacity required to restore the party's spirits at Westminster and to capitalise on the inevitable mistakes of Mr Blair's government. His powerful political presence and natural charm give him a strong public profile.

Mr Clarke has his weaknesses, among them a certain intellectual laziness. Some also argue his avowedly pro-European views would make it impossible for him to unite the party. That point is overstated: recent events in France and Germany should make it much easier for Conservatives to find common ground. But it anyway misses a fundamental truth. The choice is between the indulgence of introspection and the hard task of winning the next election. By electing Mr Clarke as leader the party would send a powerful signal that it had opted for the second course.

Extreme to mainstream

Emerging market debt has become fashionable as fund managers search for higher yields, say Richard Lapper and Edward Luce

Back in the late 1980s, any broker suggesting that Brazil would have the gall to issue a \$3bn global bond or that anyone would be mad enough to buy it would have been laughed out of court. Since then, only Italy and the Canadian state of Ontario have issued global dollar bonds of \$3bn or more.

Yet the success, last week, of Brazil's 30-year, \$3bn dollar offering is a dramatic measure of how far emerging market borrowers have penetrated mainstream international debt markets in the past few years.

"For the more conservative US and European pension and insurance fund managers to buy unsecured 30-year Brazilian bonds on this scale is something quite new," says Mr Chip Seelig, head of emerging market debt at Goldman Sachs in New York. "It demonstrates unprecedented confidence in emerging market paper."

Just a few years ago, trading in emerging market debt was confined to the strong-hearted. After some of the world's largest banks were brought to the brink of insolvency by their loans to the developing world in the 1980s, conservative investment institutions steered well clear of issuers such as Brazil.

But there has been a profound change since then. There has been the birth of a new asset class according to most fund managers of emerging market debt. Mr David Lloyd, fund manager with AMP Asset Management, says "This used to be the sole domain of specialist funds and flight capital. But over the last 12 to 18 months, mainstream investment managers have become involved."

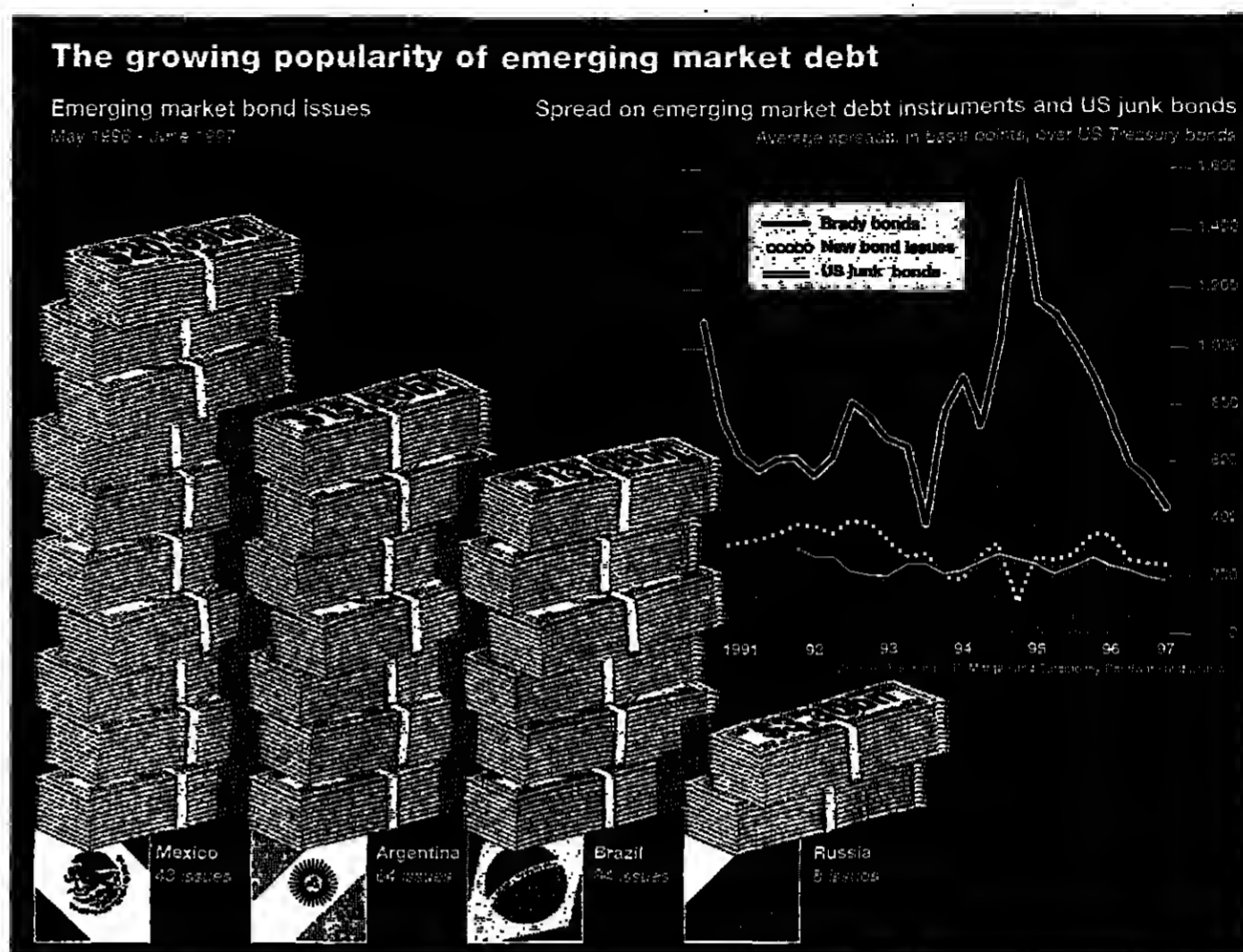
Earlier this year, Brazil agreed its first syndicated loan since 1982, and some eastern European borrowers are now obtaining funds at only fractionally higher rates than the most solid western companies. Over the course of the past 18 months, pension funds and insurance companies have begun to buy bonds issued by governments and companies in the developing world.

"The same people who a year or two ago were buying bonds issued by Toyota and General Electric are now buying paper issued by Moscow and St Petersburg," says Mr Mark Watson, head of syndicate at Salomon Brothers in London.

After Mexico's recovery from the peso crisis in late 1994, the volume of emerging market debt issuance has taken off. At the same time, the spreads - or risk premiums - paid on emerging market bonds has narrowed considerably, reflecting the strength of demand for Latin American and east European paper.

Mexico's quick action to end the crisis by stabilising the peso and stemming capital flight persuaded many US and European investors that it - and other Latin American countries - had reached a new level of maturity. The success of last week's issue by Brazil is the most recent, and perhaps the most dramatic, result so far of that change in investors' perception.

At first, their interest was largely confined to Brady bonds, the securities named after Mr Nicholas Brady, the former US Treasury secretary, which have been issued in exchange for the bad bank loans of the 1980s.



Brady bonds, issued by 16 countries from Latin America and elsewhere in the developing world, are seen as particularly secure because principal repayments are guaranteed by US government bonds.

More recently, though, investors have been prepared to exchange Brady bonds for unsecured bonds. Six countries - Brazil, Mexico, the Philippines, Ecuador, Poland and Panama - have already swapped Brady bonds for more conventional bonds.

Dozens of new emerging market governments and companies, including Russia and several central Asian republics, are coming to the market, raising money generally at lower cost and for longer periods than they would have done a year ago. Last year, net issuance of international bonds - gross issuance less redemptions - from these developing country borrowers rose to \$93.2bn, compared with \$28.3bn in 1995 and \$30.9bn in 1994, according to figures published by the Bank for International Settlements.

Investors are casting the net ever wider. Plans by the Russian republic of Tatarstan, the former soviet republic of Kirghizstan and the region of Nizhny Novgorod to place debt offerings in the next few weeks will add to the volume. Other planned issues included those from Vietnam, Côte d'Ivoire and possibly Serbia.

Local currency-denominated bills and bonds are becoming more popular. "Investors are going further afield. Six to nine months ago we would have said that Ukraine was extreme. Now it is mainstream," says Ms Elizabeth Morrissey, of Washington-based Kleinman International Consultants.

"Two years ago if you knew that the krona was the Czech

currency you were a hero," adds Mr Rick Haller, head of the emerging market division at Deutsche Morgan Grenfell, the European investment bank, and co-chair of the New York-based Emerging Markets Traders Association. "Now you have to make loans in Ukrainian hryvnia and Kazakhstani tenge if you want to be at the cutting edge."

According to the association, the volume of emerging market debt traded has increased by more than seven times since 1992. Last year alone, it more than doubled to \$5,297bn.

Dealing has become more sophisticated. Documentation is now standardised. Since the early 1990s prices have been listed on screen and electronic trading has become possible. "It used to take days to do a deal. Now it takes a few seconds," says Mr Haller.

Several factors underpin this trend. Since the late 1980s, the economic fortunes of many developing countries have improved markedly. In Latin America, for example, the adoption of tighter fiscal and monetary policies has created greater economic stability, paving the way for relatively rapid growth after the difficulties of the 1980s.

The credit quality of both governments and companies has improved. According to a recent study by Union Bank of Switzerland, 22 of the 50 biggest emerging markets are now rated investment grade by Standard and Poor's and Moody's, the two biggest international credit rating agencies. S&P recently said it was prepared to award companies a higher rating than their government in some cases.

"The countries have matured significantly and are becoming

more credible as places to invest," says Mr Steve Wiltshire, director of research at Frank Russell, the international investment consultants.

At the same time, relatively low interest rates in the economically developed countries have reduced the yields available from European, North American and Japanese government bonds. This makes emerging market debt much more attractive because of the higher yield it offers.

The success of so-called high-yielding European markets - Italy, Spain and Sweden - in meeting the Maastricht criteria for European economic and monetary union has been an important factor.

Until recently many fund managers had looked for extra returns from these markets, but over the past 18 months these returns have fallen closer to those offered by France and Germany. This has forced investors to turn elsewhere in their search for high yields.

Over the past two years the hedge funds and wealthy Latin Americans who once dominated emerging markets have been joined by more mainstream investors.

Some of the interest is purely opportunistic and could quickly disappear, if US and German bond yields start to rise. However, a number of pension funds are beginning to take strategic - or long-term - decisions to invest in the market.

Even a small investment in emerging market bonds can help fund managers outperform broader bond market indices against which their performance is judged. Higher returns also please companies and local authorities with pension funds because they help offset any need for higher contributions.

OBSERVER

Dialling a new number

It has to be said that America doesn't have much of a role to play in the UN agenda; the best efforts of Secretary-General Kofi Annan to draw US participation about large international "structures" with ill-defined functions haven't yet paid off.

But there could soon be a change in US attitudes when it comes to the Geneva-based International Telecommunications Union, whose French secretary-general Patrick Tardieu retires next year.

Moves are afoot in corporate America and in Washington to give the ITU top job to an American who can take the organisation by the horns. A reformed ITU could be used to coax traditionally-minded governments into fulfilling the market-opening principles of the telecom pact negotiated by the World Trade Organisation.

American telecoms lawyer David Leive has informally put forward his name, with a proposal to give the private sector a bigger role in the organisation.

Seems a shame nobody thought of privatisation as a way of salvaging the ailing United Nations Industrial Development Organisation. It's just made a heartfelt plea to

Germany for financial rescue - after US and British withdrawal left it fighting for survival.

The odd couple

Turkey's Islamist Prime Minister Necmettin Erbakan and deputy Premier Tansu Ciller, one-time darling of the pro-secular elite, have made a fascinating couple even in the duller moments - and there haven't been many of those during their year-old alliance. Ciller once held herself up as a secular bulwark against the forces of Erbakan's Welfare Party, while Erbakan used to rail publicly against ex-premier Ciller's allies; he still does so privately.

Most observers agree that their main common ground is a shared appetite for power, but sharing power is quite another matter. The pair have announced that grandfathersly demagogue Erbakan is to turn over the premiership to Ciller a year earlier than stipulated in last June's coalition deal, pending elections.

Ciller's political tenacity is well-documented, and no-one discounts her determination to regain the premiership. But many recall a fracas in the 1980s when Erbakan was replaced as chairman of the Union of Chambers of Commerce and Industry. He refused to leave his

seat at the union's headquarters and had to be removed by security officers. Turkey wonders if he will have the prime minister's chair more willingly this time to 1998. Mind you, speed restrictions on the EU road to Amsterdam hardly seem necessary right now, given the current political upheavals in a number of member states.

Hard cheese

Dutch officials, currently trying to steer a wayward European Union towards a Treaty of Amsterdam at next week's summit, are not always themselves in step. The Hague bureaucracy is buzzing after weekend news that 388 of its edicts are invalid, following a European Court ruling they hadn't been properly logged with Brussels.

Motorists caught speeding or even drink-driving could, for example, seek to have convictions overturned because the government neglected to seek an EU imprimatur for the measuring equipment used to detect the crime. The justice ministry, while rejecting any talk of a mass amnesty, has conceded that some pending prosecutions might have to be delayed.

With the Commission's help,

things should be sorted out within three months. The Dutch can hardly use preoccupation with the EU presidency as an excuse, given that the mistakes date back to 1993. Mind you, speed restrictions on the EU road to Amsterdam hardly seem necessary right now, given the current political upheavals in a number of member states.

Gangs all here

Fresh support has emerged for Cape Town's bid to stage the 2004 Olympics. The new backers are the Hard Livings, the Americans, the Sexy Boys, the Scorpions and the Firm - the city's powerful gangs, grouped under the unlikely-sounding umbrella of the Community Outreach Forum.

The feared gangs' leaders have signed a "peace manifesto" in the presence of Chris Ball, president of South Africa's Olympic bid committee, promising to work together to "reduce crime levels" and "monitor crime trouble spots."

The gangs say they want to see less murder, robbery, theft, vandalism and gun smuggling, although cutting out "drugs is not a priority." Let's hope for a similar outbreak of Olympic spirit among gangs in Buenos Aires, Athens, Rome and Stockholm - Cape Town's rivals for the event.

Financial Times

100 years ago

Investors Disregarded Again Argentina is becoming adept at blowing hot and cold with the same breath. Yesterday the Republic was engaged in making up its mind to resume interest on its external obligations in full; to-day it appears to be busy devising a new plan to harass the railway companies, which through the instrumentality of foreign capital, have contributed so largely to the progress of the country. Our readers are already acquainted with the scheme for the construction of a central station in Buenos Ayres on the site of the Ensenada Railway station. The Executive seems determined to accomplish the project. Indeed, the Minister of the Interior is said to have determined to tear up the rails of the Argentine and Ensenada Railways in order to force the project upon the companies. The interest of investors is, of course, to be disregarded.

50 years ago

French Rail Strike Paris, 8th June. The railway strike has an almost general character to-night, the railwaymen in the provinces having joined those in the Paris region, and deadlock in the negotiations between the unions and the Government is still complete.

Japan's Dai-Ichi bank cancels top promotions

By William Dawkins in Tokyo

Japan's financial corruption scandals have claimed another two high-profile figures with Dai-Ichi Kangyo Bank, the country's second-largest commercial lender, cancelling the promotions of its prospective president and chairman.

They are Mr Ichiro Fujita, vice-president, who was due to take over as president at the annual shareholders' meeting at the end of this month, and Mr Yoshifumi Mani, another vice-president, who had been appointed chairman.

DKB's unusual move shows its desire to distance itself from any hint of further trouble. It comes amid fears that the two men could not escape blame in the widening scandal of illicit payments to extortionists, who buy small stakes in Japanese companies and demand bribes to avoid trouble at shareholder meetings.

Mr Fujita was thought vul-

nerable because he was once in charge of vetting applications for bank loans. DKB is believed to have lent ¥20bn (\$178m) to the Koike property dealer, Koike Building, which operated as a front company for illicit operations.

The speed with which DKB acted reflects the bank's anxiety over losing business because of the scandal. Its outstanding retail deposits fell ¥150bn in May to ¥13,900bn, according to bank officials quoted in the Japanese media.

It also shows the seriousness with which Japan's financial institutions view the attempt by Mr Ryutaro Hashimoto, the prime minister, to purge the financial system of corruption.

This latest scandal began in March when Nomura Securities, Japan's leading stockbroker, admitted illicit payments to a property company owned by the younger brother of Mr Ryutaro Hashimoto, a well-known "sakaiya" corporate extortion-

ist. Mr Hideo Sakamaki, Nomura's former president, is under arrest and another former president and a chairman have been questioned.

DKB's former president and chairman later resigned, along with five other senior executives, to take responsibility for payments to the Koike brothers. Two current and two former DKB executives were arrested last week on suspicion of contravening securities laws and the commercial code in their dealings with the same sakaiya.

No senior managers were arrested in the last round of financial scandals, in 1991, another mark of this government's determination to cleanse the system.

New candidates as president and chairman of DKB have yet to be named, but front runners are Mr Hisashi Nakajima and Mr Fumio Akamatsu, both relatively young managing directors.

Israeli and Palestinian officials meet over peace talks

By Mark Huband in Cairo

Israeli and Palestinian officials met last night for the first time in 11 weeks to discuss the resumption of peace talks, frozen since March when Israel began construction of a Jewish housing project in an Arab area of Jerusalem.

Only hours before the meeting in Cairo was due to begin, there were doubts whether the discussions would take place. A Palestinian official said Israel had agreed to halt the Har Homa housing project in an Arab district of Jerusalem as a condition for yesterday's discussions. Israel denied it had agreed any conditions and the Palestinian claim was later withdrawn.

The renewed contact, aimed at overcoming hurdles preventing discussions on the final status of Jerusalem and other areas, is viewed as a sign of mutual willingness to resume direct talks. But neither side was in a position to make significant concessions which would allow a smooth resumption of talks.

"We are not willing to give settlement activity any kind of legitimacy. This is an issue that is not open to discussion," Mrs Hanan Ashrawi, education minister of the Palestinian Authority, said.

Last night's talks marked the latest stage in an Egyptian initiative to prevent the Middle East peace process stalling over this issue.

Egypt's President Hosni Mubarak met Mr Benjamin Netanyahu, the Israeli prime minister, in Egypt on May 27. He told Mr Netanyahu that Mr Yasser Arafat, president of the Palestinian Authority, could not compromise on the settlement issue.

Mr Mubarak said after the May meeting that direct Israeli-Palestinian contacts would resume. Yesterday's talks in Cairo suggest the Egyptian initiative is moving forward.

However, Israel is using its contacts with Mr Mubarak to lower their expectations of the duration of the talks and the outcome. Mr Mubarak met Mr Arafat on Saturday.

"Israel hasn't changed its commitment to Har Homa," said Mr Dore Gold, adviser to Mr Netanyahu, yesterday.

The Egyptian initiative is viewed by Arab leaders as a sign that American efforts to resume direct Israeli-Palestinian contacts have stalled, owing to its loss of influence on both sides. However, Mr Osama Al-Baz, the adviser to Mr Mubarak who engineered the current series of meetings, returned from Washington on Saturday after briefing US officials.

THE LEX COLUMN

Money trouble

Inflexible monetary policy, inflexible fiscal policy and inflexible labour markets. Europe could cope with one and, at a pinch, two of these rigidities. But the combination of all three is a recipe for massive job destruction. It is hardly surprising that the single currency project is threatening to burst at the seams. Europe's leaders just do not have the stomach to follow through the logic of their blueprint.

But how should the plan be changed? The new French government's proposal - to relax ERM's fiscal and monetary straitjackets - is only half right. Europe's governments should, indeed, have budgetary freedom; low borrowing, while desirable in itself, is not a prerequisite for a successful single currency. But France's scheme for a political counterweight to the European Central Bank could be seriously damaging. The thinking apparently is that jobs can be saved if the bank is prevented from running too tight a monetary policy. But, in anything other than the short run, the effect would be higher inflation and higher interest rates - destroying credibility that has taken much of Europe a generation to earn.

The only real way of salvaging the project is to recognise that Europe's labour straitjackets need to be relaxed. Mr Tony Blair, Britain's new prime minister, has certainly understood the point with his proselytising for flexible labour markets. If anybody is in doubt, ABB's plan to shift thousands of jobs from Europe to other parts of the world is just the latest evidence that rigidity destroys jobs. Still, the implications are daunting. Postponing ERM for a year or two will not do the trick; reforming Europe's labour markets will probably take the best part of a decade.

Credit spreads

Bond investors are being paid less and less to assume risk. Spreads in most markets, whether US junk bonds or mortgage-backed securities, emerging market debt or European "high-yielders", have been shrinking inexorably for over two years. Exotic new issuers like Kazakhstan and Moldova are coming to market and are being met by an army of willing investors. Is this all too good to be true?

The bull case rests on the increasingly sound economic management around the world. Government finances and inflation have improved, justifying lower risk pre-



miums and falling yields. This backdrop has sent investors scurrying in search of higher yields, embracing lower credits in the process. Inasmuch as this allows for deeper, broader capital markets, it is all to the good. The worry, of course, is that in the dash for yield, investors are paying prices which ignore the risks they are assuming.

These will become apparent when the global interest rate cycle turns and the liquidity which is fuelling the markets is turned off. True, debt markets survived the Federal Reserve's decision to raise rates in March better than in 1994. But what will happen to investors who have borrowed cheap when Japan raises interest rates? And how would risk appetite survive a delay to Europe's monetary union project? The end may not be imminent, but it promises to be painful when it comes.

SGS-Thomson

Even the best of the high-tech bunch will have their growing pains. Less than a week after Intel's profit warning, SGS-Thomson has had to admit that sales are weaker than it would like - knocking shares in the Franco-Italian semiconductor maker down 6 per cent. As in Intel's case this looks like a stumble rather than a fall. While revenues will be down slightly in the second quarter, gross margins have remained stable and orders are picking up strongly, so the latter part of 1997 should be better.

SGS-Thomson is, however, investing heavily in its future: research and development spending is expected to increase by a quarter this year, while capital spending at \$1.2bn is running at twice depreciation. This will depress short-term returns. Most analysts now expect a

Italy offers \$5.8bn third tranche of Eni fuel shares

By Paul Bette in Milan

The Italian government yesterday launched its biggest privatisation this year with the sale of a third tranche of shares in Eni, the state-controlled oil and gas group, in a deal worth nearly £10,000bn (\$5.8bn).

The government said it might sell more shares if there were a surge in demand for the issue, but would retain control of the company, Italy's largest by market capitalisation.

The Treasury said it would sell 1bn Eni shares, or 12.5 per cent of the company's equity, worth some £8,700bn at current market prices. However, an additional 150m shares will also be earmarked for sale if the issue is over-subscribed - a so-called "greenshoe" option.

The government is offering Italian and foreign institutions 300m shares with an additional

150m shares reserved for Canadian and US investors.

If, as expected, the entire greenshoe is exercised, the full flotation is expected to raise about £10,000bn and cut the state's stake from 69 per cent to 56.5 per cent. The government also indicated it could increase the offer further, but stressed its stake would stay above 51 per cent.

The government's decision to keep its holding above 51 per cent allows the centre-left administration of Mr Romano Prodi to head off political pressure to retain control of Eni, the world's seventh-largest publicly traded oil group.

However, Mr Mario Draghi, director-general of the Treasury, has not ruled out the possibility that the government may one day cut its stake to below 51 per cent.

He suggested that the market would decide if a fourth

Eni tranche would eventually be sold. However, Eni cannot float any further shares for six months following this offer.

The government sold an initial 15 per cent stake in 1995, raising £6,300bn, and a 16 per cent stake last year which raised £8,800bn.

"We believe this offer will confirm the success of the previous two Eni sales," Mr Draghi said. He said the two global co-ordinators for the offer - the Italian IMI Credit Institute and Credit Suisse First Boston - had received indications of strong demand.

Eni shares closed on Friday at £8.739, 26 per cent above the £6.910 of last year's offer and 66 per cent higher than the £5.250 of the first sale in 1995.

The offer price will be the lower of the maximum price set on June 22, the day before the offer opens, and the market closing price on June 27.

Banks move Dollar bond issuance

Continued from Page 1

requires a small working group, from project sponsorship and ultimately participation in the settlement bank," said Mr Stephen Thiele, head of risk at J.P. Morgan, who now chairs the G20.

The move was described as a "positive step" by Mr Finn Otto Hansen, general manager for payments at Norway's Den Norske Bank and leader of the Group of Forty, a forum of medium-sized banks which banded together to ensure that their interests were not neglected.

Continued from Page 1

will continue as portfolio investors switch their holdings out of the main European currencies. Concern about the weakness of the D-Mark and how sustainable the convergence process towards European monetary union is, has persuaded many fund managers to increase their exposure to the US dollar.

"The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

Analysts, however, warned that the dramatic scale of new borrowing was unlikely to persist for more than a fortnight.

"They pointed out that much of the demand was being fuelled by the high level of bond redemptions as old issues expired."

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

FT WEATHER GUIDE

Europe today

Western Europe will be sunny as high pressure moves from France towards Germany. A cold front will produce cloud and rain with thunder storms in an area from south-western Norway to central Europe. High pressure will bring sunny conditions to north-eastern Europe. A band of cloud and thunder storms will extend from the Baltic states through Russia into the Black Sea region. Sunny periods will occur from Poland to the Balkans with the possibility of isolated thunder showers. Unsettled conditions moving off the Atlantic will bring cloud and showers to Scotland, Ireland, north-western Spain and Portugal.

Five-day forecast

Western Europe will be unsettled with cloudy periods and thunder storms as a cold front moves in over the continent. Heavy thunder showers will linger across south-eastern Europe. Northern and central Europe will remain mostly dry with sunny periods.

TODAY'S TEMPERATURES

Location	Max	Min	Location	Max	Min	Location	Max	Min
Abu Dhabi	30	24	Amman	28	22	Beijing	28	22
Accra	30	24	Antananarivo	28	22	Bombay	30	24
Algiers	30	24	Athens	28	22	Buenos Aires	28	22
Amsterdam	28	22	Bahia	28	22	Calcutta	30	24
Atlanta	28	22	Bangkok	30	24	Chengdu	28	22
B. Aires	28	22	Bombay	30	24	Dubai	30	24
Bham	28	22	Bombay	30	24	Dubai	30	24
Bangkok	30	24	Bombay	30	24	Dubai	30	24
Barcelona	28	22	Bombay	30	24	Dubai	30	24

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

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Handwritten signature: *John Crane*

There are urgent calls for Germany to reform its outdated structures which tend to smother entrepreneurial spirit, writes Andrew Fisher

Hope and anxiety for the future

When German bankers, businessmen and investors peer into the future, they see a prospect which both excites and unsettles them. When they look around at the present, they are often disturbed and frustrated.

On the horizon is the euro, the planned single currency that will transform Europe's banking structure, capital markets and corporate environment in ways that are hard to envisage. Germany, with the most powerful economy in Europe, will play a vital role in European economic and monetary union.

But with the D-Mark - the prized symbol of the country's post-war economic success - about to be surrendered for the euro, Germany itself is experiencing acute difficulties. Qualifying for Emu, due to start in January 1999, is proving tough and Mr Theo Waigel, the finance minister, annoyed the Bundesbank with his plan to revalue the country's gold reserves to achieve this goal, though he quickly had to climb down.

Nor are Germany's problems only about meeting Emu's entry standards. As the country struggles with high unemployment, policy-makers find that companies prefer to invest abroad rather than at home and that economic recovery does not necessarily mean new jobs. Belatedly recognising that the effect of high taxes, high social security costs and excessive bureaucracy is to depress incomes, deter investment and inhibit job creation, the government is trying to introduce reforms.

But progress is slow. The word *Reformstau* (reform backlog) is commonly heard, particularly among those contrasting Germany's difficulties with the improved economic performance of other European countries such as the UK and the Netherlands or with the dynamism of the US and much of Asia. Thus the call by Mr Roman Herzog, Germany's respected president, for political action to reinvigorate the economy, encourage innovation and break through structural rigidities found a ready echo in the financial community.

Mr Rolf Breuer, the new chairman of Deutsche Bank, Germany's biggest bank, is among those concerned about the slow pace of change. "This *Reformstau* is a phenomenon which is not welcome at all. Politicians really should be encouraged to act, to move. I think they underestimate people's awareness of the need for restructuring. People have a better idea of what needs to be done than politicians think they do."

In the unfamiliar, wide-open environment of the euro, competition will be intensified across borders and economic failings exposed. For those companies and banks willing to embrace the opportunities - and that includes Germany's leading financial institutions and industrial corporations - the long-term rewards could be considerable.

But the initial impact on an unprepared economy could be painful. Hence the calls from economists, bankers and executives for Bonn to speed up the reform process.



The Frankfurt skyline is dominated by Deutsche Bank, Dresdner Bank and Commerzbank, testaments to the power and might of the German banking system. Picture: Paul Brown

Mr Gerd Häusler, a board member of Dresdner Bank and former Bundesbank director, says that when he visits the Asia-Pacific region, where he is responsible for operations, "I now come across a mixture of incomprehension and almost pity in view of Germany's stubborn adherence to outdated structures and highly subsidised jobs."

A large part of Germany's difficulties has to do with the perception of risk. In the US, for example, most jobs have been created in recent years by small companies, many of them nurtured by venture capital. In Germany, high costs and a high degree of bureaucracy tend to smother the entrepreneurial spirit. Venture capital is still in its infancy and the stock market plays a far smaller role in relation to the size of the economy than in the US, the UK or Japan.

There is certainly an awareness of the need to change. The government has passed laws to make the financial markets more flexible and attractive to investors and issuers, and more legislation is on the way. Deutsche Börse, which runs the Frankfurt securities exchanges, has set up the Neuer Markt (new market) to encourage thriving, young, technology-oriented companies to raise capital. Last year's successful Deutsche Telekom share issue also helped to promote equity awareness.

But broader economic reforms still need to be pursued more energetically. One of the biggest contributions that politicians could make towards the creation of a more vigorous, more risk-oriented economy would be to lower taxes and cut away the thicket of allowances that distorts the system. The Christian Democrat-led government of Chancellor Helmut Kohl has launched a tax reform package, but its implementation depends on the agreement of the opposition Social Democrats.

The introduction of independently-managed pension funds along Anglo-Saxon lines would also benefit the economy by expanding the equity market and thus making it easier for small companies to raise money and create employment. That connection is seen in Bonn, but reforming the overburdened state system is also taking time and is politically sensitive.

Mr Johann Wilhelm Gaddum, deputy president of the Bundesbank, notes that it is

not easy for politicians to change the consensus-minded habits developed over decades of post-war prosperity. "The economic environment in which they operate has altered," he says. The market is now the transmitter of risk capital between investors and industry. "This is something that has to be realised."

The primacy of the market, allied to the competitive forces of globalisation, is also forcing changes on the German financial community. As more companies, especially big international corporations, turn to the securities market for their capital-raising needs, banks find that their traditional lending role is being eroded. The shaky state of the German economy has also added to the volume of non-performing company loans.

Against this uncertain background, attention is focused increasingly on the opportunities of the single currency, in commercial and investment banking. Once the euro displaces the currencies of Germany, France and other Emu members, Europe's banking structure, capital markets and business environment will never be the same again.

At this stage, the ambitious Emu project still has some hurdles to overcome before the euro can take its place among the world's currencies. Although the detailed preparatory work for the planned European central bank, to be located in Frankfurt, is well under way, political uncertainties remain. Many citizens are highly sceptical about the whole undertaking.

But the general feeling among bankers, businessmen, investors and other financial market participants - regardless of whether or not they approve - is that the euro is on its way. If anything, the embarking manoeuvres being indulged in by Germany to help it meet the Emu criteria have confirmed this impression. While the move to revalue the Bundesbank's gold reserves hardly increases confidence about Emu's future stability, it is also taken as proof that politicians are determined there should be no delay.

On that basis, there is a determination to make sure that Germany's financial system benefits from the euro. Efforts are under way to strengthen the domestic capital market, of which Frankfurt is the predominant centre. This means competing more effectively with Paris in bond issues and debt management, especially since Germany will no longer have the D-Mark to set it apart. With all new bonds to be issued in euros from 1999, the race will be on to see which country emerges with the benchmark government issue.

Thus the next few years should certainly prove lively on the German and wider European financial scene. But they will not be easy. The single currency will bring about huge changes in business and investment practices. Big banks and companies are spending heavily to prepare for these as they contemplate the future with much hope and some anxiety.

IN THIS SURVEY

• Emu	Page 2
• Ernst-Moritz Lipp	Page 2
• Capital markets	Page 3
• Public finances	Page 3
• Johann Gaddum	Page 3
• Banks	Page 4
• MobilCom	Page 4
• Small companies	Page 4
• Investments funds	Page 5
• Robert Koehler	Page 5
• Eastern Europe	Page 6
• Private banks	Page 6
• Credit cards	Page 6

Production editor Roy Terry

Vereinsbank Corporate Finance

<p>VEREINSBANK JULY 1996</p> <p>Acquisition & Leverage Finance</p> <p>Landa Landa GreenParks Holding B.V.</p> <p>Institutional Buy-Out</p> <p>MLG 250,000,000</p> <p>Steady Secured Facilities have been structured and arranged and</p> <p>MLG 70,000,000</p> <p>Mortgage Facilities have been co-arranged by Bayerische Vereinsbank.</p> <p>The investor group has been led by Charterhouse Development Capital Ltd. and the Indefin Group.</p> <p>Vereinsbank</p> <p>This announcement appears as a matter of record only</p>	<p>VEREINSBANK DECEMBER 1996</p> <p>Going Public</p> <p>RINOL</p> <p>Initial Public Offering of 2,200,000 Ordinary Shares</p> <p>Lead Manager</p> <p>Vereinsbank</p> <p>Vereinsbank</p> <p>This announcement appears as a matter of record only</p>	<p>VEREINSBANK OCTOBER 1996</p> <p>ODS</p> <p>R. Oldenbourg GmbH & Co. KG, Munich</p> <p>and</p> <p>R. Oldenbourg Graphische Betriebe GmbH, Kirchheim</p> <p>have sold a majority interest in</p> <p>ODS R. Oldenbourg Datenysteme GmbH & Co. KG, Munich</p> <p>to</p> <p>Landis & Gyr / Elektrowerk-Group, Zug/Zürich.</p> <p>We advised Oldenbourg on this transaction.</p> <p>VB Consult</p> <p>This announcement appears as a matter of record only</p>	<p>VEREINSBANK DECEMBER 1996</p> <p>Acquisition & Leverage Finance</p> <p>Hofmann-Menü - Group</p> <p>Leveraged Buy-Out</p> <p>The senior debt has been arranged by Bayerische Vereinsbank.</p> <p>The investor group has been advised by Schroder Ventures.</p> <p>Vereinsbank</p> <p>This announcement appears as a matter of record only</p>
<p>VEREINSBANK FEBRUARY 1997</p> <p>Acquisition & Leverage Finance</p> <p>ELIXIS Holding GmbH</p> <p>Institutional Buy-Out</p> <p>DM 25,000,000</p> <p>Stand-by-Facility has been structured and arranged by Bayerische Vereinsbank.</p> <p>Equity for the transaction was arranged and provided by Doughty Hanson & Co.</p> <p>Vereinsbank</p> <p>This announcement appears as a matter of record only</p>	<p>VEREINSBANK OCTOBER 1996</p> <p>Going Public</p> <p>bertrandt</p> <p>Initial Public Offering of 900,000 Ordinary Shares</p> <p>Lead Manager</p> <p>Vereinsbank</p> <p>Vereinsbank</p> <p>This announcement appears as a matter of record only</p>	<p>VEREINSBANK NOVEMBER 1996</p> <p>ACQUISITION & RECYCLING</p> <p>SUROFLEX GmbH</p> <p>The shareholders of</p> <p>Suroflex GmbH Acoustics & Recycling, Solzback-Bessenberg</p> <p>have sold a majority interest to</p> <p>Jason GmbH, Pforsheim</p> <p>a wholly owned subsidiary of</p> <p>Jason Incorporated, Milwaukee, Wisconsin.</p> <p>We initiated and facilitated this transaction.</p> <p>VB Consult</p> <p>This announcement appears as a matter of record only</p>	<p>VEREINSBANK DECEMBER 1996</p> <p>Acquisition & Leverage Finance</p> <p>techem Techem AG</p> <p>Leveraged Buy-Out of a majority stake</p> <p>The acquisition finance has been supported by Bayerische Vereinsbank.</p> <p>The investor group has been led by SC Partners Funds.</p> <p>Vereinsbank</p> <p>This announcement appears as a matter of record only</p>

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2 GERMAN BANKING AND FINANCE

PREPARATIONS FOR EMU • by Andrew Fisher

Friendly persuasion for the euro sceptics

Banks are doing their utmost to inform customers about the need to prepare properly

Banks are in the front line when it comes to preparing for the single currency. Every aspect of their operations has to take account of the euro from the first day, regardless of which countries join and whether European monetary union starts on time in 1999.

"When it comes, we shall be ready," says Mr Josef Ackermann, a director of Deutsche Bank, Germany's biggest bank. "Our preparations have been intensified in 1997."

Having initially put the cost of preparing for Emu at DM250m, it now expects to invest up to DM400m, mainly because it underestimated

training and communication costs.

Other banks are also spending heavily. In addition, they are doing their utmost to inform business customers about the need to make preparations or at least be aware of Emu's implications.

Big companies such as Siemens and Daimler-Benz are well advanced in their preparatory work, seeing the euro as a big business opportunity. But many smaller and medium-sized companies, especially those tied to the domestic market, are lagging well behind.

Germany's myriad local savings banks and co-operative banks are also working hard ahead of Emu. There are 624 savings banks with 19,000 branches and 280,000 employees. The savings bank movement is spending about DM1bn to equip staff to deal with sceptical customers -

on the assumption that each client will want 15 minutes of advice.

"All our staff who deal with customers will need to be able to answer any general questions about the euro," says Mr Hans-Michael Heilmüller, a director of the German savings bank association. Overcoming scepticism about the single currency - especially in a country where the D-Mark represents economic strength and stability - will be no easy task.

The government, now struggling to reach the Maastricht budget and debt criteria for Emu, has left much of the task of persuading people to accept the euro to the banks. Yet while the government's own difficulties - and its tardiness in pushing through much-needed economic reforms - are hardly likely to dispel citizens' scepticism, most

seem resigned to the idea of the euro.

Banks, however, have to forge ahead with their preparations whatever people think. From day one of Emu, all German transactions will have to be expressed in both euros and D-Marks, at least until the new coins and notes are introduced in 2002. While most big customers will probably use the euro as an accountancy unit immediately, smaller businesses are likely to continue in D-Marks for the first two or three years.

Retail customers will clearly prefer to stick to D-Marks until 2002, but those who deal in securities - which will be denominated in euros - will also need separate euro accounts. But regardless of whether payments or receipts are in euros or D-Marks, they will be expressed in euros as they flow between accounts.

Banks will have to be ready to meet this challenge.

Mr Ernst-Moritz Lipp, a director of Dresdner Bank, Germany's second biggest bank, says that if all its euro preparatory work were compressed into one year, the full-time services of 300 people would be required.

But banks, especially those with big international operations, are peering beyond the practical aspects of Emu into a future where they see new strategic opportunities. This applies across the financial services spectrum.

Mr Diethart Breipohl, finance director of Allianz, Germany's biggest insurance group, believes Emu is likely to speed up the restructuring of the financial services and insurance sector in Europe. "The euro will make it easier to compare prices across European financial products and thus lead to more cross-

border business and increased competition."

But the single currency will not be the dominant force in the competitive process. With banks and insurance companies now competing increasingly against each other for clients, there will be increasing concentration across the financial services sector.

"The concentration process in Europe has only just begun," Mr Breipohl says. "In Japan, there are just 20 insurance companies for a population of 150m. If you extrapolate this to Europe, there should be no more than 50 companies. Currently, there are still more than 5,000."

Against this background, only niche specialists and financially powerful international insurance concerns would survive in Europe in the long term.

Deutsche Bank's Mr Ackermann agrees that Emu

will help speed the process of change in financial and industrial markets. "I'm pretty sure the domestic restructuring in each market will be accelerated. We will see more mergers and acquisitions in each market."

He expects direct banking operations to grow as more customers combine the convenience of computers and telephones with the cross-border investment and business possibilities opened up by the euro. And he foresees greater cost competition in retail banking products. "The most efficient banks, with the most efficient communications channels and the most efficient technology, will be the winners."

In commercial and investment banking the size of each bank's funding and asset base, the strength of its advisory network and the extent of its global presence will be crucial.

"The logic of the euro is more competition and lower costs," he says. This will apply across the industrial and financial scene. "An entire field of innovation will be opened up. Bigger [corporate] entities with higher economies of scale will develop. New opportunities will also open up for banks in investment management as more people invest on a European scale."

In spite of the excitement - and risks - just over the Emu horizon, however, Mr Ackermann believes much banking business will remain regional, especially in consumer business such as mortgages.

National differences, such as in tax and legal systems, will remain for some time. The single currency will not change everything, although it will impinge on practically every aspect of people's lives.

PROFILE

Man with a mission to change

Dresdner aims to benefit from opportunities in financial and industrial markets

Preparing for the euro will be costly for Dresdner Bank, as it will be for its big German rivals. Dresdner will spend up to DM200m, about two-thirds before 1999 - the year European monetary union is due to start - and the rest by 2002, when coins and notes are introduced.

Most of the money will go on technical preparation and staff training. But Dresdner, Germany's second biggest bank, is thinking beyond the practical need to be ready for the single currency. Its deeper aim is strategic - to benefit from the opportunities the euro will bring in financial and

industrial markets and fashion new strategies for dealing with investors and customers.

"We want to use the impact of the integration through the euro to push forward changes in the bank," says Mr Ernst-Moritz Lipp, Dresdner's director responsible for Emu preparations. The bank is concentrating on two main strategic areas: securities - where the euro will transform the market for issuing shares and bonds as well as their trading and custody - and advisory services in big industrial sectors.

"We want our employees in wholesale and investment banking to become specialist advisers," he says. Dresdner aims to help big corporate customers meet the post-Emu challenges of deregulation and

privatisation in such sectors as telecommunications, motors, engineering, energy, chemicals and pharmaceuticals and healthcare.

These are areas where Dresdner has strong client relationships in Germany and experts in London, where it boosted its investment banking side by purchasing Kleinwort Benson. Mr Lipp says that by combining its industrial links with investment banking skills the bank intends "to advise, finance and earn money".

He foresees dramatic changes on the securities side. "I believe the European capital market will be really revolutionised in coming years."

He expects more companies to tap this wider market to raise money through bond issues rather than borrowing money in

the traditional way.

Thus both banks and companies will have to be well prepared. Corporate financial statements will have to be clearer and more comprehensive if big institutional investors are to be tempted to buy their new bond issues. Credit analysis will also have to be amplified.

Many companies with credit ratings below triple A are likely to raise money in the broader euro capital market. Banks arranging, trading in and marketing such issues will have to have good risk analysis. To augment the work of rating agencies, banks will need a host of new credit analysts. "The market for credit analysts will boom."

The bank also sees opportunities on the custody side, in looking after securities held by large

institutions. "Dresdner intends to be a euro bond bank and a euro custody bank." All big banks face the question of whether they want to specialise in these areas or stay away. "The decision has to be made in 1997 or it will be too late."

Thus Dresdner is building up its European custody expertise in France, the Netherlands and elsewhere. Mr Lipp expects custody business in Europe to remain largely national because of different laws and systems. The bank is also anticipating the need for big US-based global custodian banks to work with sub-custodians in the euro zone.

Risk analysis will have to be strengthened to cope with the range of government, regional and local authority bond issues in euros. There will be no single benchmark issuer like



Ernst-Moritz Lipp: foresees dramatic changes

government issuers." So we will need to develop good cross-border, Emu-wide risk analysis."

Set against the strategic thrust of Dresdner's euro effort, the practical issues seem straightforward. But the detail is complex, requiring the full-time efforts of about 130 people in and outside the bank on the technical preparations. Big transactions between Emu central banks, other banks, large companies and institutions will be in euro accountancy units from the start. But smaller payments will be mainly in national currencies at first.

Handling all dealings in euros will require enormous preparation. Every transaction will have to be expressed in the new currency, even if the money is paid and received in D-Marks until 2002. "The euro pipeline [between accounts] has to be there for all customers," Mr Lipp says. Some clients, especially corporate, will

want both D-Mark and euro accounts. Conversion between currencies will be done by the banks.

Big payments will mostly be handled by Target, the Emu real-time payments system. But small ones will still be carried out by national systems. These are not compatible, however - "you can't make an automatic transfer today from Frankfurt to Bordeaux". So Dresdner will work with foreign bank partners to develop an efficient joint low cost cross-border payments system. Other bank groupings are doing the same.

The customer may not notice, but the euro is causing feverish behind-the-scenes activity across the banking spectrum. Assuming Emu starts on time, Dresdner intends to be ready around mid-1998 to give itself a few months' practice.

Andrew Fisher

"The remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole."

George C. Marshall

Vor 50 Jahren hatte George C. Marshall ein großes Ziel. Er wollte die Unabhängigkeit Deutschlands und Europas. Seine Ideen sind wahr geworden. Dank des Marshallplans und seiner Finanzierungsprogramme konnten und können wir als Haupteinstitute der Marshallplan-Mittel dafür sorgen, daß Visionen Wirklichkeit werden. Danke.

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CAPITAL MARKETS • by Andrew Fisher

Sights are set on overtaking Paris

Frankfurt aims to establish close connections with the European central bank

The relentless approach of European monetary union has focused attention on the strengths and weaknesses of the German capital market, which is heavily concentrated on Frankfurt.

Mr Rolf Breuer, the new chairman of Deutsche Bank, speaks of a "Big Bang" effect which Germany must exploit to the utmost by being ready with the right financial products and trading systems.

At Bayerische Vereinsbank a recent study on the impact of the euro on Europe's capital markets was subtitled "From the provincial to the world league". It described the immense opportunities Emu would bring, but also highlighted the "creative destruction" that would ensue as existing structures were overturned.

Mr Gerd Häusler, a director of Dresdner Bank and former senior official of the Bundesbank, homed in on the upheaval which the euro would cause in a speech titled "European monetary union - curse or blessing for

the financial markets?"

The big question is not whether Frankfurt can catch up with London. Few bankers see that possibility, since London is far ahead in financial skills and global business volume.

Even if the UK does not join Emu, London will remain a superior centre, although Mr Breuer thinks the City will be at a disadvantage by not being close to the European central bank which will set Emu's monetary policy.

"We in Frankfurt have decided to play on that - in a friendly competitive manner," he says. "We will try to establish close connections with the decision-makers in the ECB and thus cultivate a better market feeling for the decisions to be made."

What really concerns Mr Breuer and others is that Frankfurt should be able to match or exceed Paris. To ensure German markets are in fit shape for Emu, a campaign has been launched to overcome their "image problem".

A financial market association was set up with Mr Breuer - also head of the supervisory board of Deutsche Börse, which runs the Frankfurt securities and futures exchanges - as a key member.

In spite of his concern that Germany - which will lose the advantage of having the stable D-Mark as its currency - has not put its arguments across strongly enough, Mr Breuer sees opportunities.

He feels the German fixed interest market in bonds and other instruments are "up to standard and competitive", although there is room for improvement.

He believes Frankfurt's electronic trading systems also give it a competitive edge. The DTF, the futures and options exchange, has more than half of its members outside Germany, linked electronically. The stock exchange is also forging ahead with its Xetra project to extend electronic trading.

Mr Breuer expects traditional floor trading to disappear with the coming of the euro. Big investors will drive markets along the electronic route, which he says Frankfurt has pursued more energetically than France. "For a euro capital market, with no borders, no barriers, no financial location in physical form, and which lives from institutional money inside and outside Emu, everything is open for remote membership. That is the way I feel

markets will function in future."

In spite of its push into new technology, however, Germany has much catching up to do on the stock market side. "Where we still lag behind, not only vis-a-vis London but also relative to our Continental competitors, is in the equity market."

But he is happy with government reforms to make German capital markets more flexible and transparent. The main drawbacks are cultural more than structural. Many German investors and companies are still not equity- or risk-oriented enough. The shrill discussion over the attempt by Krupp Hoesch to bid for Thyssen, its larger steel and engineering rival, showed that hostile takeovers still arouse strong emotions in Germany.

The banks which backed the Krupp offer, including Deutsche and Dresdner, came under heavy attack from trade unions over possible job cuts. Some politicians also criticised the banks' role. "It was not a very educated discussion," says Mr Breuer. But he thinks the episode has advanced the takeover debate. "The world will not be the

same after Krupp/Thyssen," he says. "Maybe it is even helpful in hindsight - although I could easily have done without it - that this topic is now on the table."

One development that does gratify him is the success of last year's DM20bn share issue by Deutsche Telekom. He pinned strong hopes on its potential for jolting Germans out of their safety-first investment attitudes.

"The positive thing is that the majority of original individual subscribers to Telekom still remain shareholders. In previous years, they would have sold after the first couple of days."

Another requirement for expanding the role of equities in Germany, where stock market capitalisation is low in relation to the size of the economy, is the introduction of pension funds along Anglo-Saxon lines. Tax laws put these at a disadvantage against in-company schemes.

But here too, the unflappable Mr Breuer is optimistic. "I think politicians have accepted that reforms have to come." For the moment, though, the emphasis is more on salvaging the creaking pay-as-you-go state system than on creating the

right conditions for independently-managed pension funds. These would help people earn adequate returns to enhance retirement income.

He does not expect pension funds to be given the green light until after the general election in October next year, because the cash-strapped government has other priorities.

Since pension funds are heavy investors in equities, the stock market would gain a huge impetus from their introduction. "We still lack domestic institutional investors of size, apart from the mutual funds," Mr Breuer says. German insurance companies generally do not invest in shares up to the limits allowed them.

Looking beyond Germany, bankers are concerned about how effectively Frankfurt will be able to compete with Paris once the euro sweeps away currency differences. "France has consistently developed its financial centre after the example of New York and created modern instruments," says Mr Häusler. Germany has striven to catch up, notably by introducing short-term government paper and resuming 30-year bonds, but France still has an advantage, he adds.

PROFILE Johann Wilhelm Gaddum

Time to be venturesome

Mr Johann Wilhelm Gaddum, deputy president of the Bundesbank, the central bank, thinks German investors and companies should become more risk-minded. But he does not follow those who want to ape Anglo-Saxon practices to the full.

"I think we have to find a way that doesn't involve throwing overboard the traditions of the German system. You can have a corporate culture that combines the old with the new."

What is increasingly clear in these days of globalisation is that the old "house bank" links between companies and banks are dwindling, especially at big concerns. "For a long time, German corporate culture was very much concentrated towards companies being shut off from the market rather than opening up to it," says Mr Gaddum, who is responsible for capital and money market issues.

"The German banking system is very efficient and it also provides a comprehensive service that means companies are not forced to go to the market. Companies have found a ready source of loans and advice at their banks. But this is changing. Returns on traditional bank lending and deposit business have been shrinking, while more and more companies are finding it cheaper to raise money from the capital market."

The process is taking time in Germany, though. "We need more risk-bearing capital in our economy, especially since investments are likely to be more rather than less risky as they are linked with technological innovations. With product and innovation cycles speeding up, today's successes can become tomorrow's failures. So the traditional German route of debt financing is no longer the answer. There is no sense in accusing the banks of being risk-shy," Mr Gaddum adds. Banks are not there to handle these risks. "This has to be understood better."

This applies, especially to politicians, who need to be aware that risk premiums on capital have to be high enough to encourage new investments.

While many politicians, from Chancellor Helmut Kohl downwards, have called on Germans to be less risk-averse and more entrepreneurial, considerable obstacles remain. Taxes are high,

bureaucracy can be stifling and social security costs are burdensome for employers and employees.

Mr Gaddum does not criticise the government but says rethinking is necessary. "One has to understand that politicians cannot react that quickly to changing conditions. The economic environment in which they operate has altered."

While the success of last year's Deutsche Telekom share issue has alerted many to the attractions of equities, there is still a long way to go before the stock market's role in the economy matches those in the UK, US, Japan and other countries. Efforts are being made to broaden the range of quoted companies, an important initiative being the Neuer Markt set up by Deutsche Börse, which runs the Frankfurt



Johann Gaddum: banking system is very efficient

securities exchanges. This market is aimed at fast-growing, dynamic and technology-oriented companies.

As the euro approaches, it will be vital for German banks, companies and investors to be fully prepared for the unification of capital markets that a single currency will bring about. The same applies to bond and money markets. "There will be competition between financial centres and between issuers of securities," Mr Gaddum says.

Because the Maastricht treaty excludes any bail-out by the European central bank - which will set monetary policy for the euro countries - of governments which run into budget problems, analysts and investors will have to look hard at the relative merits of national bond issues. "This will lead to differing ratings of loans, even in a unified capital market. This could be one of the most interesting developments in the market."

Andrew Fisher

PUBLIC FINANCES • by Peter Norman

Problems mount for embattled Waigel

Challenges include unemployment, low revenues and opposition to tax reforms

At the end of last month, Mr Theo Waigel became the longest serving finance minister in post-war Germany.

There must be times when, surveying the nation's finances, this naturally robust and generally good-humoured politician wishes he had sought a less challenging position long ago.

Mr Waigel faces a host of problems - including record unemployment, lower than predicted tax revenues and entrenched opposition in the Bundestag, the second chamber of the Bonn parliament, that make controlling the federal deficit and pushing through ambitious plans for tax reform a daunting task.

No sooner is one crisis solved than another surfaces.

In mid-May, Mr Waigel appeared to have devised a solution to the problem of bringing this year's public deficit below the 3 per cent of gross domestic product prescribed by the Maastricht Treaty, by revaluing the Bundesbank's gold and currency reserves. The surplus that would accrue from the

roughly DM30bn difference between the low book value of the reserves and their market value would be transferred in stages to a special "redemption fund for historic burdens", where it would offset deficits elsewhere in the public finances.

This move, however, earned a stinging rebuke from the Bundesbank that forced Mr Waigel to abandon all hope of using proceeds from the revaluation of the reserves this year.

While the press and public were absorbing the implications of the row between finance ministry and central bank, Mr Waigel and high level colleagues in Chancellor Helmut Kohl's often quarrelsome coalition were struggling to tackle the next problem: that of filling yawning gaps in this year's federal budget and the draft for 1998, which is due for review by the cabinet in July.

The Bonn coalition is faced with financial imperatives that are difficult - if not impossible - to reconcile. It must meet the Maastricht criteria limiting the public deficit to 3 per cent and overall debt to 60 per cent of GDP on a sustainable basis - in the years ahead as well as in 1997, the crucial year for securing membership of the planned single

currency from 1999.

It should not allow the federal deficit to exceed the amount budgeted to cover investment. In compliance with this "golden rule", laid down in the constitution, the 1997 budget envisaged investment of DM60.5bn this year and about DM60bn in subsequent years. The deficit, fixed late last year at DM53.5bn for 1997, appeared

	1996	1997	1998	1999	2000
Net income	200.0	514.1	233.2	236.3	236.3
Expenditure	200.0	514.1	233.2	236.3	236.3
Surplus/deficit	0.0	0.0	0.0	0.0	0.0

*Actual figures compared with previous forecast
Source: Short Finance Ministry's tax estimates committee

safely below the investment level but is subject to strong upward pressure. Last year's federal deficit of DM78.5bn was about DM18.5bn more than planned.

The pressures include paying for higher than expected unemployment, which is likely to average about 4.3m this year compared with a forecast 4.1m in January and 3.95m when the 1997 budget was finalised last year. Mr Waigel has warned that the cost of higher unemployment could be up to DM20bn above budget this year.

At the same time, economic growth is failing to

boost tax revenues. In May, the finance ministry's expert committee, which produces tax revenue estimates twice a year, forecast a DM18bn shortfall in revenues for the federal, state and local authorities in 1997 and a total DM118bn revenue gap between now and 2001. The shortfall is structural. It partly reflects the export-led nature of Germany's eco-

many, by 2 percentage points to 5.5 per cent at the start of next year.

A wide reform of the income and corporation tax systems that aims to cut tax rates radically while pruning tax privileges is planned from 1999.

However, such reforms cost money. Long before it was presented with the recent forecasts of reduced tax revenues to 2001, the government agreed that its big tax reform should include a net easing of the overall tax burden of about DM30bn.

Unfortunately, the planned broadening of the tax base will still leave an additional gap of at least DM15bn to be financed. A separate restructuring of the pension system is likely to produce a similar hole. This has meant that while planning income tax reform with net cuts, most of the public discussion on the reform has centred on the likely indirect tax increases that will be necessary to make the sums add up.

The 1999 tax reform is bound to be amended as it passes the Bundestag, where opposition Social Democrat-controlled states are in the majority.

In the coalition, Mr Waigel has been subject to damaging criticism from the small

Free Democrat party, the junior partner to Mr Kohl's Christian Democratic Union, and Mr Waigel's own CDU, which sees itself as a tax-cutting party and rules out higher taxes in principle.

Reaching agreement in the coalition on the 1998 budget is the subject of very difficult negotiations with the FDP. Mr Waigel has been careful not to rule out indirect tax increases next year while FDP leaders have declared that these would be "poison for the economy".

Meanwhile, what the government calls the "blockading" policies of the SPD in the Bundestag are giving rise to lopsided financial legislation which does nothing to reduce the complexity of the tax and benefit system.

In the circumstances, it is not surprising that Mr Waigel has rediscovered privatisation as a way of plugging budget gaps.

But privatisation and the unfortunate plan to revalue the Bundesbank reserves are one-off measures. To solve the crisis in Germany's public finances, Mr Waigel needs a longer-term vision in which cuts in spending and subsidies will be put alongside tax reform. With the next federal election now less than 18 months away the time for outlining such a vision is becoming short.

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4 GERMAN BANKING AND FINANCE

BANKS • by Andrew Fisher

Shake-up fever played down

Hostile takeovers would be costly and may risk alienating valuable staff

Germany's big banks are set for a restructuring wave that could change the face of financial services in Europe's biggest economy. Or are they?

Ever since Deutsche Bank, the country's highest bank, set the stock market alight last July with the news that it had acquired a 5.21 per cent stake in Bayerische Vereinsbank, speculation about a shake-up in Germany's over-branched banking sector has been rife. Previously sluggish bank shares have soared - as has the stock market in general - and all manner of possible merger and takeover permutations have been mooted.

Top German bankers were bombarded with questions about the topic at their annual press conferences this spring. They answered circumspectly, refusing to be drawn on what they thought might happen.

Some made clear, however, that they would not simply sit by and watch the sector being restructured without taking an active part. Others pointed out that hostile takeovers in banking would be next to impossible, because they would be too costly and would risk alienating valuable staff, who might then leave.

The big Allianz insurance group is likely to play a crucial role in any restructuring. It owns 22 per cent of both Dresdner Bank, the second biggest bank, and Bayerische Hypotheken- und Wechsel-Bank (Hypo-Bank), and has a holding in the smaller BHF-Bank, which is occasionally the subject of takeover rumours.

So far, however, the ownership of the big banks is the same as it was before Deutsche Bank, based in Ger-

many's financial capital of Frankfurt, bought into Munich-based Vereinsbank. And while some bankers and many analysts are convinced that big changes are in the offing, others expect no movement - for the time being at least.

Mr Hilmar Kopper, who has just bowed out as chairman of Deutsche Bank and now heads its supervisory board, believes that the status quo among the biggest banks will be maintained for a while. "I wonder that this unleashed speculation," he says of the Vereinsbank holding.

Instead of changes among the top five German private sector banks - including Commerzbank, in which there are no sizeable outside stakes - he expects consolidation to come first among the myriad public savings banks. He believes any changes at national level are anyway likely to be far outweighed by the eventual impact of the single currency on European banking structures and practices.

The consolidation process is already well under way in Germany, as savings banks merge. But there are still more than 600 with about 19,000 branches. "Our banking sector has a different structure than in any other industrial country," Mr Kopper says.

Main rivals in German banking	
% of domestic banks' total assets	1995
Private sector banks	35
of which big three	8
Public sector banks	50
of which Landesbanken	18
Co-operative banks	15
Others	10
* Including mortgage banks	
** Deutsche Bank, Dresdner Bank, Commerzbank	
Source: Bundesbank, Association of public sector banks (end 1995 figures)	

per says. "We can only talk about structural changes - I don't know when this is likely to happen, I am talking purely theoretically - when people's powers of imagination reach far enough to allow German public sector banks to combine or link up with co-operative or private sector banks." So far, "the imagination is lacking for this now".

He points out that Germany's biggest banks - with Berliner Bankgesellschaft, BHF-Bank and the privately-owned Sal. Oppenheim bank - make up "a small part" of the German banking sector. "What big changes can they bring about?" he asks.

Mr Ernst Michel Kruse, the new chairman of BHF-Bank, also sees limited scope for change until the non-private sector banks are trimmed. "Half the banking industry is savings and co-operative banks," he says.

"You have to ask how significant any restructuring or consolidation could be in an industry at large that does not change this fundamental structure." He expects change in time.

The main private sector commercial banks have only about a fifth of the German savings and deposit market. "In other countries one bank alone has this," Mr Kopper says. Hence his belief that there will have to be a further stunning down in the savings and co-operative bank sector.

To cut costs and improve service and efficiency in this over-banked market, all the big banks have been streamlining their extensive branch networks, concentrating their back office activities and shedding staff.

There was a move to combine private and public banks under one corporate roof with the formation of Bankgesellschaft Berlin in 1994. This brought the public sector Landesbank Berlin, which owns the city's savings bank, together with a property finance bank and



Hilmar Kopper: status quo will be maintained

Berliner Bank, a commercial bank.

But the component banks are still run separately and the group's performance has been hampered by reorganising. Also, it has been performing poorly, with last year's results affected by a jump in provisions because of bad property and business loans. It is now trying to expand further by merging with Hanover-based Norddeutsche Landesbank, also in the public sector.

This would create one of Germany's biggest banking groups. Yet although it would take the restructuring process in German banking a stage further, it would not be the big step many people are waiting for. For one thing, the strong political influence is likely to inhibit reductions in costs and jobs. For another, it will not involve any of the top names in private sector banking.

There has been speculation that the Berlin group might be interested in buying BHF-Bank, although both have denied talks.

Westdeutsche Landesbank, Germany's biggest public sector bank, excited the market this year when it produced a detailed study of who might profitably combine with whom. It identified three main potential groupings: Deutsche Bank and Vereinsbank (with potential synergies and savings from branch and job cuts of about DM5.8bn in 1998); Dresdner and Hypo-Bank (DM4.5bn); and BHF-Bank and Hypo-Bank (DM7.7bn).

Realising such potential will not be easy in a country with strict labour laws and strong employee representation on supervisory boards.

PROFILE MobilCom

Trailblazer reaps reward

Mr Gerhard Schmid, chairman of MobilCom, is learning English. He is sitting in his small office in Schleswig, a quiet, former Viking town in northern Germany, only a short distance from the Danish border.

He has just returned from London, where he met investors to tell them about his young company. Next week he will fly back to England for a technology exhibition.

"I have to know English. You can live and work here in the countryside, in the fresh air, but you learn about this industry in the US, in London," he says.

MobilCom, a mobile telephone network provider, became the darling of Germany's new stock market for growing businesses as the first company to issue new shares on the exchange in March. Following the DM60m offering, which was 100 times oversubscribed, the company's shares have rocketed, rising from the DM2.50 issue price to about DM140 by the end of March.

"We have been astounded by the success, but it does show our future opportunities," Mr Schmid says. This month the company published its results for its first quarter as a public company. Subscribers were up 14,000 to 174,000, turnover was DM65m and pre-tax profits DM5.4m, compared with less than DM1m a year ago.

An obvious reason for the business's success is the sector MobilCom is in. The mobile phone market is an exciting, fast-growing and - as Mr Schmid's global trading shows - increasingly international business. The German mobile phone market grew 7 per cent in the first quarter. In France, Italy and Spain growth was 12 per cent.

Another reason for success, was the publicity surrounding the launch of Germany's new small company exchange, called the Neuer Markt. "The time was right, telecommunications is interesting and then the Deutsche Börse promoted the Neuer Markt and they therefore promoted us too."

But in spite of the free publicity, Mr Schmid insists that the surge in the share



Gerhard Schmid (left) and fellow director Carsten Meyer: "We have been astounded by the success"

price is more a sign of interest in the company than in the new market. "Nobody invests because they are interested in the company. The market just tells you that there is transparency, that the company has proper accounts, that it has a prospectus, that it is official," he says.

Among other things, the Neuer Markt requires that companies provide accounts according to international accounting standards and that results be available in English.

But perhaps the most important reason for the company's success is the aggression and focus with which MobilCom has approached the mobile telephone market. It is these qualities, says Mr Schmid, which have made it possible for the small company, only six years old, to survive against big competitors such as Bosch, Daimler-Benz, BMW, Ford and Motorola.

Before he founded MobilCom Mr Schmid worked at Sixt, the car rental company - "also a tough business,"

he says. "Our competitors said we'd only be in this market for a few years. But they were wrong," says Mr Schmid, shaking his fist triumphantly. "We are faster, more flexible, more aggressive than the others. We will not be bigger than them, but we can be more successful in terms of profit."

He points to new successful sales techniques MobilCom has introduced: a system of direct sales including 500 freelancers, who are paid commission for every new customer they sign, and a network of 60 franchise shops across Germany.

"I have learnt two things with this company," says Mr Schmid. "One lesson is that growth also brings problems. It saps liquidity, and you need good management to channel it. The second is that people have limits, but that these are only in their heads. My workers didn't believe they could compete against the big companies, didn't think direct sales or franchises would work, but they all have."

Success is changing MobilCom. Not least, the extraordinary rise in the company's share price has meant its 253 employees have become more interested in shares, and not just those of MobilCom. "They also feel their work is more recognised, and that adds to motivation," says Mr Schmid. "All of the heads of department are now driving BMWs."

The business's expansion also means that the company will soon have to move a lot of its operations from the centre of Schleswig - where it was originally lured with a loan from the local state government - to a bigger site about 10 miles away.

While the company has come a long way, Mr Schmid thinks it has much further to go. He points out that the penetration rate of the mobile telephone market in Germany - the number of subscribers as a percentage of the population - is below the Western European average and is still only about half as big as that in the UK. "The market for the coming years is unending," he says.

He now wants the company to expand into new areas, in particular into fixed-line telephones when this market is liberalised next year. This would bring MobilCom into even closer competition with the big European telephone providers as it fights for calls in the normal household and office market.

But whatever happens, Mr Schmid intends to stay true to the company's motto: "Free and independent."

He says: "There have been offers in the past - for DM20m, DM40m in 1993, in 1994. But what would I do with the money, play golf? He owns 70 per cent of the company and 31, the venture capital business, 10 per cent. The remaining 20 per cent was floated."

Mr Schmid smiles when he contemplates his competitors. "All the others are subsidiaries of bigger, huge companies. They are like children, whereas we are not, we are our own company."

Graham Bowley

SMALL COMPANIES • by Graham Bowley

Innovation helps banks look to the future

The need for risk capital is getting increased attention, not least from banks

Making it easier for small but promising companies to gain access to the capital they need to grow has become a hot topic in Germany at a time of high unemployment and a sluggish economy.

The job-creating possibilities of small, innovative companies and the need for risk capital are receiving increased attention, not least from the banks, which are worried about where their future customers are going to come from.

Perhaps the most important step forward has been the establishment by Deutsche Bank, the Frankfurt stock exchange, of a new market for small companies - termed the Neuer Markt. A listing on this market requires companies to provide transparent and frequent financial reports which meet international accounting standards, available in English as well as German, as a way of boosting investor confidence in the small company segment.

The market was opened in March with the launch of its first issue - by MobilCom, a mobile phone service provider - and a relisting from another, less successful exchange by Bertrand, a car design service company. Since then, three other companies have sold their shares to list on the exchange, and the market authorities expect about a dozen more businesses to have listed by the end of the year.

"The main reason why the Neuer Markt has so far enjoyed success is because investors believed they would be well informed. Things were transparent," says Mr Uwe Flach, a mem-

ber of the board of DG Bank, which brought MobilCom to the market.

Mr Rolf Breuer, chairman of Deutsche Bank, Germany's biggest bank, and supervisory board chairman of the Deutsche Börse, is optimistic about the market's future - especially since other small company markets in other European countries such as AIM in Britain and the Nouveau Marché in France are doing better after some starting problems in the French market. Mr Breuer says the Nouveau Marché is "back on track" and doing very well, and the French public is satisfied. "So that gives me more confidence that in Germany as well the Neuer Markt will do very well."

A further step towards helping small business has been the establishment by Deutsche Bank earlier this year of a DM25m investment fund devoted to supporting the growth of innovative, hi-tech companies.

The new fund - which will be enlarged by a further DM20m if it is successful - marked the end of a year's programme by Deutsche Bank to provide start-up help for young, hi-tech companies. This programme resulted in support for about 18 businesses with a total investment of about DM31m.

Mr Carl Ludwig von Boehm-Bezing, a director of Deutsche Bank, said he was concerned about the lack of equity culture in Germany, where investors would still rather put their money in land than in shares, and where getting capital could be a tortuously long process for some companies. "The experience of the past is that it takes longer in Germany than in Anglo-Saxon countries," he says.

Another practical step has been taken by DG Bank. Many small companies considering coming to the market can be put off by the

costs of seeking advice and preparing an issue.

DG Bank launched a do-it-yourself manual with a checklist to help small companies work out for themselves whether they are ready for the market. "If they think the answer is yes, then they come to us," says Mr Flach. Within two weeks, between 300 and 400 companies approached the bank with requests for the manual.

Mr Flach thinks that conditions are improving for small companies looking to raise capital on the equity market. "Five years ago it was almost impossible for a small company or anyone to get to the market. We had very few companies which raised capital on the equity market except those which were already listed," says Mr Flach. But now "there is a substantial change occurring in the German equity culture. The time is right to get companies interested."

Reasons for this change include the current buoyant state of the German stock market - the DAX index has been regularly posting new highs in recent months.

But perhaps a more important reason is the expected shift in the German pensions system from a pay-as-you-go system towards private pensions schemes more common in countries such as the UK. This shift is likely to increase the awareness of equities among investors.

Finally, a number of tax disadvantages have been removed from issuing shares.

An important milestone in increasing investor awareness of equities was the huge public offering of shares in Deutsche Telekom by the government last autumn.

"It was a roaring success. The Telekom issue helped a great deal in making equities more popular," says Mr Flach.

He thinks that small companies in general which are looking to raise new finance through an equity issue can draw important lessons from MobilCom's experience on the Neuer Markt.

One of the most important, according to Mr Flach, is that the issue's success can be helped if the company is regarded as being in a growth industry, such as mobile telephones.

"With telecoms, it was relatively easy to convince people this was a growth industry," he says. "The company was in a sexy industry. It was the right industry and the right stock at the right time. They also got a lot of free advertising because they were the first one on the Neuer Markt."

A second important lesson is that companies need to realise that they have duty in the Neuer Markt to meet the high standards required by the exchange, such as international accounting rules.

Meeting these standards can be costly, but they also provide an important boost to investor confidence.

A third lesson is that the issue is helped if it is a capital increase, with the company's managers staying in place, rather than an outright sale of stock with the owners quitting the business.

"A capital increase for the company is a sign that the managers believe in the business, they are staying and want to expand. This builds confidence among investors," says Mr Flach.

A final lesson is that it is important to have a period of bookbuilding during which the lead managers are able to test market sentiment and gauge where and to what extent there is demand for the new shares. "It helped a great deal. You found a level in the market where the demand was," says Mr Flach.

Dealing effectively with the accelerating pace of change in European markets has become one of the major challenges of our time. Although change often leads to

on a European scale, DGZ serves a select, demanding clientele of corporations and financial institutions as well as governments and government agencies.

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INVESTMENT FUNDS • by Laura Covill

Investors reluctant to quit savings habits

The need for long-term personal investment has never been greater

Despite the industry's efforts to create a new fund-based vehicle for personal pensions, funds are still not the preferred investment for most Germans and the banks advising them.

In terms of performance, the past year has been the ideal time to persuade Germans to abandon their old savings accounts and shift their assets into funds. Over the past 12 months (to mid-May 1997) the equities bull market has propelled the 96 German stock funds to average growth of 35 per cent.

The top performer was DIT's Wachstumsfonds, which grew 52 per cent.

As state and company pensions decline in value, the need for long-term personal investment has never been

greater. According to Mr Rolf Passow, chief executive of DIT, which is owned by Dresdner Bank, "the number of people who believe they'll need additional provision for their old age is growing rapidly. That's now about 80 per cent of the population".

Yet funds are not the only option, say the bankers which through their branch networks control most of the retail market for funds in Germany. In Germany, a financial adviser's primary decision will be not which funds to choose, but whether to select funds at all. They often decide that real estate, insurance policies or direct securities investments are a better choice.

Tax reform is on its way, but German tax laws in their present form make property investments a preferred choice for high-income individuals. One on-lash choice, ship participations, is no longer a tax avoidance method.

For fund managers, this is

the downside of the German system, where every significant fund provider is owned by a bank which invariably recommends its funds but also represents the fund manager's main sales outlet. Fund marketers are almost entirely dependent on the decisions of the banks' investment advisers.

Mr Klaus Eswein, chief executive of the ADIG funds group, says with regret that last year, many German banks demonstrated they had "different priorities" from the funds providers.

Meanwhile, competition among German fund providers is getting tougher. Over the past two years the number of retail funds available from German providers alone has grown from fewer than 800 to 1,050. More than 2,000 others from non-German providers are being marketed in Germany.

Enormous efforts are needed to be a leading performer in this environment," says Mr Udo Behrenwaldt, a

managing director of DWS, the fund company owned by Deutsche Bank.

Unless the bank's in-house fund manager performs as well as the competition, a bank's investment advisers may recommend alternatives from in-house insurers or even devise their own portfolio management scheme.

Retail investors are realising that their bank invariably offers products from its in-house fund provider. But given the poor image of independent financial advisers as an unqualified and unregulated profession, there are few credible alternatives.

From next year, independent advisers will be obliged to obtain a qualification. Ms Jutta Funck, the local managing director of Gartmore, believes that once the German public begins to trust independent financial advisers at least as much as banks are trusted, they will hear more about "foreign" funds, which are still unknown to most Germans.

Although foreign-managed funds do not perform better on average than German-managed alternatives, the fact that they are perceived as a more independent choice may boost their popularity.

At present, foreign fund providers such as Gartmore, Fidelity and Templeton attract German customers through press advertising and by holding information sessions for private investors. But none is willing to publish its German sales figures.

It is a rare German bank which breaks ranks by offering foreign funds to their customers. Usually their motive is to make a statement of independence from their parent bank. Thus most direct banks offer a full range of funds.

In the mass market, a few local savings banks (Sparkassen) and co-operative banks offer foreign funds to stand out from the local competition. But they are

placed under heavy pressure from their in-house fund managers to fall back in line.

There are also a few private banks which seek independent alternatives for high net worth individuals. One is Baden-Württembergische Bank, a regional bank which includes funds from Fidelity, Flemings and Gartmore as well as from German fund managers such as DWS in its discretionary portfolios for wealthier private investors.

Mr Gerhard Single, co-head of fund-based portfolio management, complains that some German banks still misuse their in-house funds to dump unsold securities from public offerings in which the bank has participated. Furthermore, he says, German fund managers will not provide regular details of the fund's composition. "We can't find out what securities are held to the funds from the big banking groups. Investors won't accept that any more," Mr Single says.

However, winning broad popularity for funds depends neither on independence nor on transparency. German fund managers argue that small investors are willing to invest large amounts in pension plans, but are confused about the best way in which to do so.

A scheme drawn up by the German investment fund association (BVI) proposes a new type of pensions vehicle known as "Pensions-Sondervermögen" (PSV), which will invest up to 75 per cent of funds in equities and up to 25 per cent to real estate.

At present, German fund providers are not allowed to combine these two forms of investment in a single vehicle. The PSV scheme forms part of the forthcoming Third Financial Markets Promotion Act, which was originally supposed to be introduced by late 1996 or early 1997. But the German government and parliament are occupied with so many reforms that the investment

community is being kept waiting. Mr Manfred Laux, BVI chief executive, now predicts the first PSV funds will be on the market in the first quarter of next year.

The delay is no excuse, however, since fund providers do not need the PSV legislation to sell pensions. PSV will neither create new investments nor improve incentives; it will simply repack existing investment opportunities under a new name. The funds lobby fought for tax breaks, but failed to win them.

"It's nothing more than a marketing trick, an attempt first to establish the idea of pensions investment and second, to get tax breaks," says Ms Funck of Gartmore. Some fund marketers admit privately that they do not expect any real boost in PSV investment until the government creates tax incentives. With German public finance in a serious predicament, that concession is unlikely to be made soon.

PROFILE Robert Koehler

Corporate success story

Visitors to the headquarters of Mr Robert Koehler, chairman of SGL Carbon, the carbon and graphite group, should not be taken in by first appearances.

With its staff of 17, housed in a genteel villa in a sleepy suburb of Wiesbaden, it is hard to believe this is the brain centre of one of Germany's fiercest crusaders of Anglo-American management principles and head office of one of its most profitable listed companies.

Mr Koehler, 48 and sharp-tongued, soon puts you straight. With the country's unit wage costs the highest in the world, SGL Carbon is "keeping a close eye on whether we should move out of Germany altogether". And

the headquarters were "deliberately designed as a tent, easy to take down and erect somewhere else if we need to - not something you can do with a palace and hundreds of employees".

As Germany struggles with 10 per cent unemployment and the trend towards globalisation takes hold, remarks such as these have blackened Mr Koehler's name among the country's powerful unions and some of its politicians.

At the same time, he has earned respect in the international business community for his efforts to improve awareness of shareholder value in a country which is only slowly beginning to distance itself from its stakeholder culture.

He has also tackled many of the taboos of German corporate life, such as stock options schemes for management, wage costs and share buy-backs.

The proof that he is on the right track, Mr Koehler says, is in SGL Carbon's own success story. When he took charge five years ago it was a little-known, loss-making arm of the Hoechst chemicals group. Today it is a world leader in its field, with a return on capital employed of 26 per cent last year and a market capitalisation of DM4bn. Since its initial public offering in 1995, its stock has more than quadrupled in value.

To get this far, Mr Koehler, born in the conservative city of Munich,

took a decidedly un-German route. Helped by 11 "highly formative" years at Hoechst UK, followed by a spell as head of Hoechst's Columbian operations, Mr Koehler says he realised the key to success was adapting quickly to the challenges of globalisation.

For SGL Carbon this meant in part expanding globally and moving two-thirds of its production abroad and away from Germany's high cost base. And this when many German managers were still focusing "on regional business", as Mr Koehler puts it, at home or in Europe.

In addition, it meant trying to satisfy the exacting demands of international investors who, following



Robert Koehler: fierce crusader for management principles

SGL Carbon's listing on the New York Stock Exchange last year, comprise about three-quarters of its shareholders.

Even now, as German companies increasingly turn to foreign capital markets for liquidity to expand, Mr Koehler admits that shareholder value remains

largely an unknown quantity to Germany. "The problem here [to Germany] is that many people still talk a lot of nonsense about shareholder value and don't really understand what the word means ... or how to make it work at the operating level."

"It's symptomatic that we don't even have a proper word for it in German."

But Mr Koehler is not a man to be parted from his vision. Learning on his experience abroad, he called in a strong foreign contingent to his management "to help us move away from the traditional way German companies are run". Fewer than half the group's 70 senior managers are German.

Unlike many other German managers, who are merely paying lip service to the concept of shareholder value, Mr Koehler has put

his words into action. To him, this means not only introducing benchmarking, a clearer corporate structure, more open communication with investors and ambitious profit goals, but also creating a motivated workforce.

Under Mr Koehler, SGL Carbon became the first German group to introduce stock options and share-ownership schemes for managers. This was "revolutionary", he says, in a country where wage differentials between top management and assembly line workers are among the lowest in the world and there is a great deal of public scepticism about performance-related pay.

For Mr Koehler, further proof that SGL Carbon chose the right strategy came earlier this year when Krupp-Hoesch, the steel and engineering group,

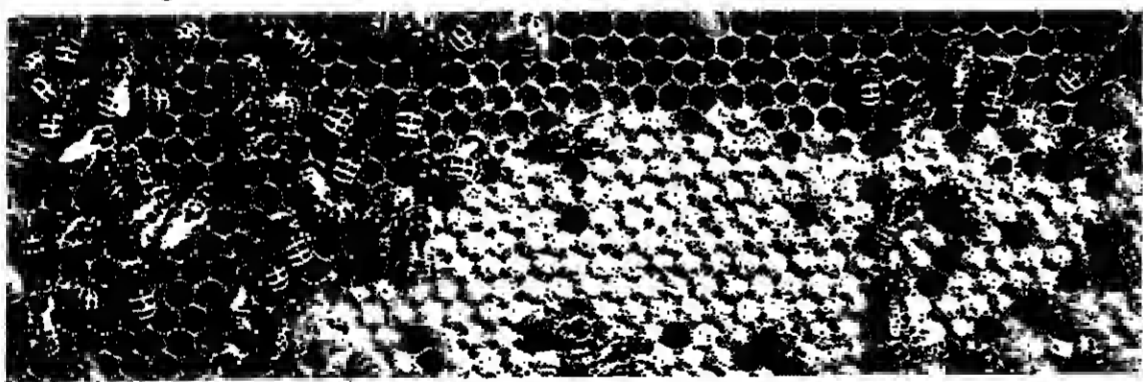
attempted a hostile takeover of its bigger rival, Thyssen. Krupp-Hoesch later settled for a merger of their steel operations, partly in response to pressure from the unions and politicians.

"I strongly believe the Krupp/Thyssen story will change the German corporate landscape. Even big companies will learn from it that they too could be a target for hostile takeovers if there is too big a difference between their asset value and market value."

Mr Koehler has not given up on Germany yet. He stresses he is hopeful "the new generation of younger German managers and pressure from international capital markets" will accelerate the pace of change. One can imagine Mr Koehler pitching his tent elsewhere if it does not.

Sarah Althaus

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Liable equity capital	DM	2,442.0 m
Net interest income	DM	248.1 m

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Landwirtschaftliche
RENTENBANK
Frankfurt am Main

D

in 1996
Success

DePfa-Bank Group Accounts as at 31.12.1996

	1996	1995	Change
	DM m	DM m	In %
Lending volume	150,174	131,486	+14.2
Outstanding securities			
including loans taken up	133,879	117,083	+14.4
Balance sheet total	172,160	151,216	+13.8
Operating profit	464.5	321.0	+45.3
Net profit	166.1	141.4	+17.5



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6 GERMAN BANKING AND FINANCE

EASTERN EUROPE • by Graham Bowley

Move to the east pays off

The pattern of German banks' involvement has followed the pattern of trade

German banks have been quick to follow the country's business and industry into eastern Europe and are now heavily involved in the region.

According to a report last year by the Bundesbank, the German central bank, Germany alone accounted for one third of eastern and central European countries' trade with western industrial countries by the middle of 1996. This follows rapid growth: between 1993 and 1996, Germany's exports to the central and east European countries rose by about one third to just under DM60bn.

"The central and east European economic area is therefore already more important as an export market for Germany than, for example, the US," according to the Bundesbank. As further proof of the strong and growing links, about one tenth of Germany's total direct investment now flows to central and eastern Europe.

"For all the eastern European countries, Germany is by far the largest foreign trading partner in terms of imports and exports. That makes it quite different from other European countries and that shows the region's importance to our customers," said Mr Edwin Rindt, deputy manager responsible for middle and eastern Europe at Commerzbank in Frankfurt.

"The opening up of eastern Europe has brought a whole new market nearby Germany and with a big potential. It is almost our

own market. We have been focusing a lot of resources on it and we have made profit from it," Mr Rindt said.

Not surprisingly, the pattern of German banks' involvement in these countries has largely followed the pattern of trade. Export growth has mainly been concentrated in Poland, the Czech Republic and Hungary.

Reflecting this, the main inroads made by the banks have been in these three countries where reform has been greatest, although they are also involved in Slovakia, Slovenia and the Baltic states. They are also now pushing more heavily into areas where economic progress is less well advanced such as Bulgaria, Romania, Croatia, Russia and beyond into central Asia.

"Poland, the Czech Republic, Hungary, these are the countries to which international investors have gone and the basis of our strategy was to go with our clients," said Mr Peter Tils, a director responsible for middle and south-eastern Europe at Deutsche Bank.

But while the main banks are seeking to build a presence in eastern Europe, the strategies they have adopted to achieve this goal have differed. Deutsche Bank, for example, has adopted a strategy of opening its own new subsidiaries in the region, while Commerzbank has tended to buy into existing operations in the area. Most banks, however, are now trying to develop their business from their initial operations in commercial banking into investment banking.

"We started with corre-

German trade with Eastern Europe (Dm bn)		
	1996	1995
Exports	24.5	20.5
Mainly to:		
Poland	10	11
Czech Republic	13	10
Hungary	7	8
Imports	14.5	14.0
Mainly from:		
Poland	14	11
Czech Republic	12	9
Hungary	7	4

Source: Bundesbank

spondent banking but after we saw our customers were there, it was clear that this was not enough, we had to be present as Deutsche Bank. So we established a network of representative offices. The next step is to establish some subsidiary branches," said Mr Hubert Pandza, responsible for eastern Europe and central Asia at Deutsche Bank. Deutsche, which opened a branch in Prague in 1993, has a subsidiary in Poland and which opened a subsidiary last year in Hungary, is keen to emphasise its historically strong links with the region. It has played a leading role in many of the eastern European countries' big privatisations and in many of the big loans to the region - it is helping to arrange the latest syndicated loan for Gazprom, the huge Russian gas utility.

"On average, 25 per cent of the trade between Germany and eastern Europe is channelled through our banks," said Mr Tils. "We have close links to the governments, to the central banks and to new business," he said. One country where Deutsche is especially proud of its links is Russia, where it has representative offices but where it now plans to open a subsidiary and to integrate both its commercial and investment banking activities under one roof.

Deutsche has led the restructuring of Russia's commercial bank debt, the so-called London Club debt, which the country inherited after the collapse of the Soviet Union, and on which Deutsche expects to reach an agreement this summer. Deutsche last month opened a new representative office in Croatia.

As part of its push into Poland, Commerzbank bought a 21 per cent stake - since increased to 32.9 per cent - in Bank Rozwoju Eksporitu (export development bank), a medium-sized bank with a branch network. "That gave us access to a branch network. In the Czech Republic, you can reach the rest of the country from Prague. But Poland has a lot of important regional markets. We have clients in five or six different cities, so we needed a branch network in Poland," said Mr Rindt.

In Hungary, Commerzbank has set up a commercial bank subsidiary and last year started Eurocommerz, an investment bank in which it has a 51 per cent stake. In the Czech Republic, Commerzbank has started a joint venture with Wood & Co, a stockbroker, called WoodCommerz. It has a representative office in the Slovak Republic, and is also now considering a "strong presence" in the south-eastern European countries, including the former Yugoslavia.

"Our approach has been different from that of Deutsche and Dresdner. They have opened their own branches, have founded their own subsidiaries. Our approach is to do it organically. If you buy a stake in a bank as in Poland you get the local knowledge," said Mr Rindt.

Looking forward, Poland is the country which would seem to offer the greatest immediate growth potential for Germany's banks. "Because of its size and its links with Germany, we think that Poland should be as important for us in the east as France is in the west," said Mr Pandza.

PRIVATE BANKS • by George Graham

Beauty contest winners

Germany's private banks have had to reassess their futures in recent years

The Frankfurt skyline is dominated by the towers of Deutsche Bank, Dresdner Bank and Commerzbank, testaments to the power and might of the German banking system.

In their shadow, just next to the Frankfurter Hof hotel, sits a more modest building with the words "Sackcloth" and "Affluence" inscribed on its walls: the headquarters of Schröder Münchmeyer Hengst & Co, one of the city's private banks.

Sackcloth may seem an inappropriate theme for a private bank, but Mr Jochen Neynaber, SMH's co-chairman, is under no illusions about the need for modesty in the face of Deutsche Bank and the other titans.

"The other guys are so big. Those guys get the first account, the second and the third. After that it's the beauty contest," he says.

Not all of SMH's competitors are so modest. Those with the luck or judgment to be based elsewhere than Frankfurt - Sal. Oppenheim jr. & Cie in Cologne, for example, or M.M. Warburg in Hamburg - have sometimes found it easier to build substantial local businesses away from the shadow of the big three.

"Like Caesar said, it is better to be number one in Gaul than number two in Rome," says Mr Karl Otto Pöhl, the former Bundesbank president who is now chairman of Oppenheim's managing partners.

Several private banks, too, have developed market-leading positions in specific areas: Trinkaus & Burkhart in Düsseldorf, for example, is a prominent operator in the German derivatives markets, while the much smaller B. Metzler seel. Sohn & Co, in Frankfurt, has one of the largest mergers and acquisitions businesses in Germany, with a particular niche in advising local governments on ways of incor-

porating and privatising municipal services. For all Mr Neynaber's modesty, too, SMH has built a top-rated equity research and broking business. Nevertheless, Germany's private banks have almost without exception had to reassess their futures in recent years. Most have concluded that they no longer have the capital to compete in traditional but high-risk areas such as lending, and have sought to refocus on less capital-hungry activities, principally corporate finance advice, equities broking and - source of the highest hopes - fund management.

The unanimity with which private banks have opted for the same strategic goals is remarkable, given the disparate nature of their corporate structures.

Of the purest private banks - run by personally liable partners and still controlled by the family - only a handful remain. Oppenheim is the largest, with others such as Metzler and Delbrück. Even Hauck and M.M. Warburg have large financial institutions among their shareholders, though they are not controlled.

Yet even banks owned by larger financial groups - SMH is controlled by Lloyds TSB of the UK, and Trinkaus & Burkhart by HSBC Holdings - are in many cases structured as Kommanditgesellschaft auf Aktien, a curious cross between a partnership and a public company run by personally liable partners.

The partnership structure plays an important marketing role in the asset management business. Mr Neynaber, of SMH, says it is important to have a personally liable partner dealing with a very wealthy private client, "because it puts us on his level".

The failure of the big banks to replicate the success of the private banks in the wealth management market through subsidiaries such as Deutsche Bank's Grunelius or Dresdner's Hardy suggests that there may be something to that argument.

Card. The contract was originally awarded to GZS, but when the card consortium told its members that they would have to absorb losses on the deal, the cartel office intervened. The contract was subsequently re-awarded to Citibank.

Results from the BahnCard have been more disappointing than Citibank originally hoped. The bank intended to issue Visa cards automatically to all adult BahnCard holders, but ran into flak from consumer associations which feared that move would encourage customers to get into debt. As a result, the combined Visa/BahnCard is now offered only as an option, so take-up has been slower than at first projected.

Still, 455,000 combined cards were in issue by the end of April, making the BahnCard one of the largest payment card programmes in Germany.

Other co-branding deals such as Berliner Bank's programme with ADAC, the German automobile association, have also boosted card issuance in Germany.

The changes in the market structure have been so great that GZS has been compelled to change its own structure. The company has now been split into two, with one arm conducting processing operations for all cards, and a separate unit as licence holder for the Eurocard brand in Germany.

While other German banks have also started to issue credit cards, some outsiders believe they have only started to scratch the surface of the market's potential.

Most cards are still, in effect, deferred debit cards: the bill is paid off each month and the credit line, if any, is attached to a current bank account, not to the card itself.

In the US, the link between current account and card account has been almost entirely broken, and in the UK it has started to crumble in the face of highly competitive offerings from specialist card issuers. In Germany, that process has scarcely begun.

But the banks' relation-

ship with their current account customers is coming under more immediate attack from a wave of direct banks which have begun to woo clients in growing numbers.

Some of the earliest direct banking operations concentrated on a limited range of services. Direkt Anlagengeld, for example, focuses on broking and investment products, while Quelle Bank, an offshoot of the Quelle mail order group, concentrated on consumer finance.

The leading commercial banks have now pitched into the market with full service direct banking subsidiaries, including Bayerische Vereinsbank's Advance Bank, Commerzbank's Comdirect, and Deutsche Bank's Bank 24.

Bank 24 is perhaps the most ambitious of these. By the end of April it claimed 110,000 customers, and its target is 500,000 by the end of 2000.

"We are basically convinced that the direct banking market will have sorted the sheep from the goats in the next few years. Institutions which are growing in a small way will lack the economies of scale to compete. We are being very aggressive in order to add 100,000 clients a year," says Mr Thomas Holtrup of Bank 24.

Comdirect now has 83,000 customers and expects to have 200,000 by the turn of the century, according to managing director Mr Bernd Weber, while Advance Bank, which won 25,000 customers in its first year in business last year, said it hoped for a client base of 250,000 by the year 2000.

The direct banks have



Karl Otto Pöhl: macro scenery in this business is very clear

But Mr Herbert Jacobi, managing partner of Trinkaus & Burkhart, says partnership is also critical to his bank's overall attitude to risk.

"If something really goes bad, you are risking whatever assets you have. In any big organisation, you analyse risk abstractly, but in a private bank you analyse it rather less abstractly," he says.

This attitude to risk has not stopped Trinkaus from continuing to lead to corporate clients or from developing a substantial proprietary trading operation, though Mr Jacobi says it has led the bank to invest heavily in risk management systems. Some other private banks, however, have wound down their lending activities.

Asset management offers the sort of low risk income streams that private banks are now looking for, and targets in this area are ambitious. Both in the traditional private banking field of wealth management for individuals and in the still tiny German institutional fund management market, all the demographic and economic indicators are pointing to huge growth.

"The macro scenery in this business is very clear," says Mr Pöhl.

"People don't trust the official pension schemes any more, and know they have to take steps to provide for their old age. Incomes are high, and there is a wave of inheritance of business fortunes built up since the war."

Private banks fare very well in the provision of asset management for very high net worth individuals who may have sold their father's business, but they have a problem with distribution to a wider market, although some, such as Oppenheim, are experimenting with the sale of funds through insurance companies.

What they cannot wait for is the inevitable reform of German pension law to encourage the setting up of segregated pension funds, a market in which they believe they are particularly well-equipped to compete.

Today, companies are allowed to make provisions for their pension liabilities on balance sheet, rather than in segregated funds, while employees are taxed on their pension contributions.

As a result, only a few multinational companies such as Hewlett Packard have set up segregated pension funds.

The few institutional fund management mandates around are also, for the most part, based on absolute performance - a requirement to achieve an actuarial return of, say, 6.5 per cent - rather than benchmarked against peer groups or market indices, as is usual in the US or UK.

"We are not accepting new mandates based on absolute return. We want clear benchmarks," says Mr Neynaber of SMH.

Pension reform may take some years to arrive, but private bankers have already taken steps to establish disciplined fund management teams so that they will be ready when the day comes, and with it a long-awaited development of Germany's equity market.

The likely development of the pension fund market has not escaped the plants of Frankfurt, and they too have been building up their fund management operations.

Still, when reform comes, most private banks believe there will be plenty of business left for them.

"This is a business which has a future," concludes Oppenheim's Mr Pöhl.

CARDS AND PAYMENTS SYSTEMS • by George Graham

Plastic money catches on

A decade ago there were only 1.7m cards in issue. Today, there are 13.6m

Change in the German retail banking market has long been a gradual process, but developments in products and delivery channels over the past few years have started to shake up the sector.

Germany was once a backwater of the European credit card market, but the country's consumers are now adopting plastic cards in increasing numbers.

At the same time, customers are signing up in droves for a new generation of direct banks offering financial services by telephone or PC.

In the payments market, Germany used to be dominated by cash, giro and Eurocheques. A decade ago, cards were used largely for travel and entertainment and only 1.7m were in issue.

That number has already moved to 13.6m, and Mr Laurenz Kohleppel, head of the Gesellschaft für Zahlungssysteme, the central German payments processing consortium, expects it to climb to 17m by the year 2000.

Helped along by the intervention of the German cartel office, the dominance of the Eurocard, issued directly by GZS, has been broken down. Today, although Eurocard still leads with 7.9m cards, banks are issuing their Eurocard/MasterCards, while Visa has also broken through into the German market.

Citibank, the US retail bank which is the world's largest card issuer, has led the charge as a Visa issuer, although the big German banks such as Deutsche and Commerzbank now also issue Visa cards.

But Citibank's biggest blow to the traditional structure of the card market came with its co-branding deal with Deutsche Bahn, the national railway system.

DB has around 3m BahnCard holders, who for a flat annual fee get a 50 per cent reduction on rail fares. In 1994, it decided to outsource the operation to a card processor, who could add a payment function to the Bahn-

Card. The contract was originally awarded to GZS, but when the card consortium told its members that they would have to absorb losses on the deal, the cartel office intervened. The contract was subsequently re-awarded to Citibank.

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The direct banks have

been set up as free-standing operations in a bid to escape from the rigidities of the German banking industry's centrally negotiated pay scales and working conditions.

Bank 24, for example, gives 26 days holiday a year compared with 32 or 33 in its parent company, and has wage costs 30 per cent below the industry standard tariff.

Even so, none is yet making money, and break-even is still a long way off.

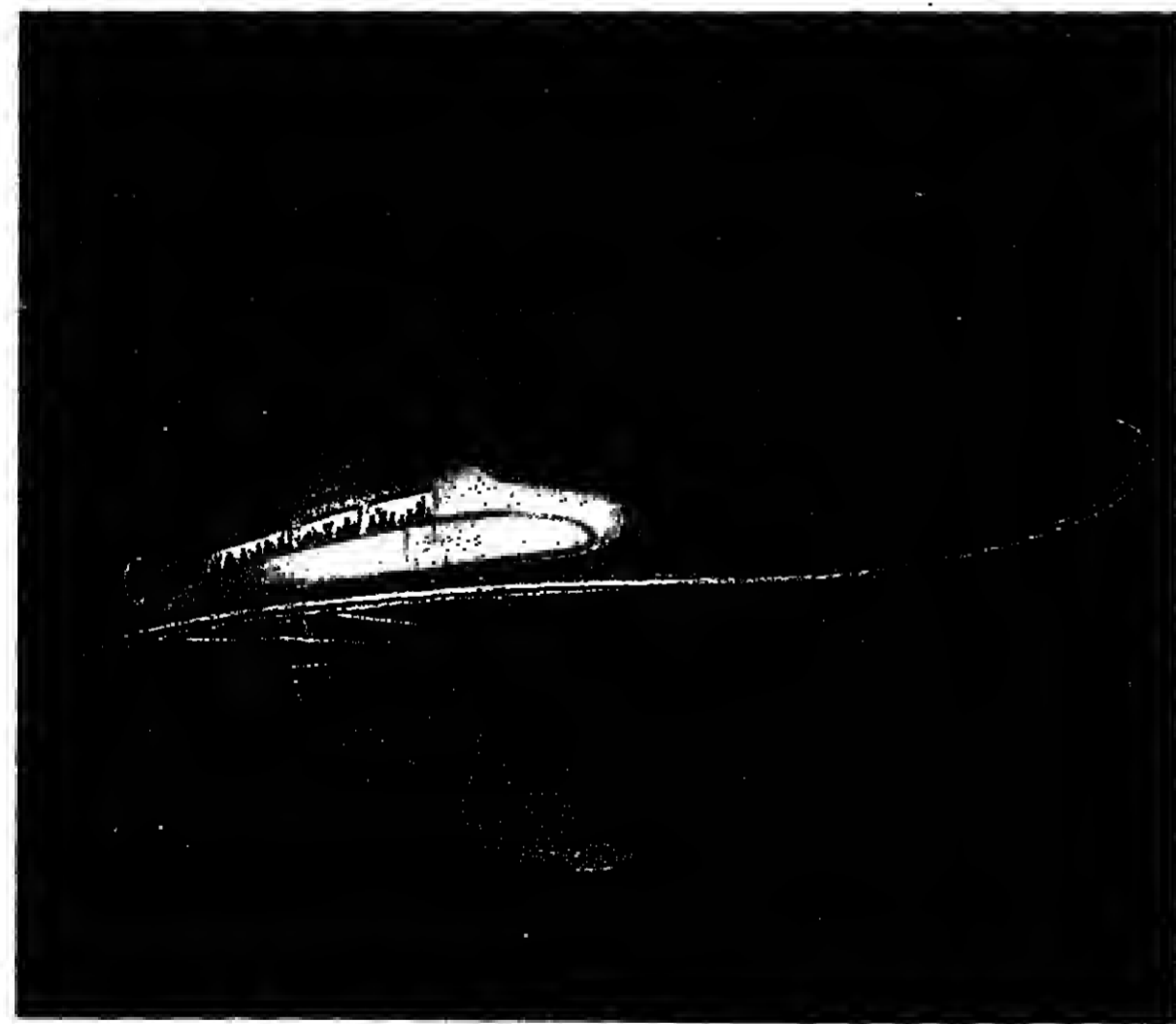
"We could not have had a five-year business plan with a break-even target if we had been inside the industry tariff. If we had had to do that, we would have gone to Scotland or Brighton," Mr Holtrup said.

The telephone banking centre has been set up in Bonn, well away from Deutsche Bank's headquarters in Frankfurt. It is no accident that other large call centres have also been set up in the state of Nordrhein-Westfalen - Citibank's is in Aachen and Dresdner Bank's new centre will be in Duisburg - since the regional government there is much more amenable than other states to the idea of 24-hour working.

What is particularly attractive about direct banking for the big German commercial banks is that they run only a limited risk of cannibalising their own customers.

The retail banking strength of the savings and co-operative banks, many of them limited by statute to a narrow geographical area, makes them a tempting target for commercial banks with nationwide networks.

But in a market that is now in flux, the coming years could yet shake up long-established market positions.



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IN BRIEF

Bank Austria dips on news of issue

Bank Austria's preference shares fell more than 5 per cent on Friday after the company announced it was issuing Sch3bn (\$246.5m) of new shares at a record low price of Sch376 each and at a steep discount to the group's book value. The preference share issue is designed to help pay for Bank Austria's Sch17.2bn acquisition of Creditanstalt, Austria's second-highest bank. Page 19

Stagecoach eyes NZ bus operator
Stagecoach, the acquisitive UK bus and rail company, is considering bidding for Yellow Bus Company, based in Auckland, New Zealand. It is thought the business could command a \$30m-£40m (\$40m-£55m) price tag, on annual revenues of \$30m. Page 18

US online grocery store to go public
Peapod, the US online-grocery store and delivery service, is expected to go public this week with an issue of 3.6m new shares on Nasdaq at between \$13 and \$15 each. The top price would value the Illinois-based company at US\$244.8m. The group, which was set up by two brothers in 1989, made a net loss of \$9.57m last year on revenues of \$23.17m. Page 19

Belgrade cancels telecoms signing
The Serbian government called off the signing of an agreement to sell a combined 49 per cent stake in state-owned Telecom Serbia to Italy's Stet and OTE, Greece's state-controlled operator. No official explanation was given for the last-minute cancellation, but one participant in the talks said "technical" details had held up an agreement. Page 19

Telefonica reaches deal on Tisa
Telefonica, the Spanish telecommunications operator, has secured a compromise agreement with the Spanish government that will allow it to secure outright ownership of its subsidiary Tisa, the main foreign operator in Latin America, which is 24 per cent state-owned. Page 19

Heidelberg Zement enters Bulgaria
Heidelberg Zement of Germany, the world's fourth-largest supplier of cement, has beaten international competition to buy controlling stakes in two Bulgarian cement plants. The company is set to pay the Bulgarian government about \$25m for the plants, along with up to \$35m of further investment. Page 20

Linde forecasts profit from China
Linde, the world's leading supplier of forklift trucks, expects its recently opened Chinese operation to report its first profits by 1998. The German company, whose only non-European manufacturing site is in Xiamen, southern China, forecasts that the business will achieve sales of Yn600m (\$72.3m) in 1997, but will continue to report losses over the next two years. Page 20

Granada agrees \$45m hotel disposal
Granada, the UK hotels, catering and television group, has lifted the total raised from the disposal of Exclusive Hotels following the Forte acquisition to more than \$450m (\$733.5m) with an agreement to sell Brown's hotel in London for \$45m to Raffles Holdings of Singapore, a wholly-owned subsidiary of DBS Land. Page 18

BCP issue to finance bank stake
Banco Comercial Português, Portugal's second-largest bank, is to make a big international placement of subordinated debt to help finance an \$577bn (\$41m) acquisition that will increase its stake in Banco Português do Atlântico from 50.1 to 75.1 per cent. BCP is to acquire 27.5m shares from Imperio, the insurer. Page 20

Millennium expected to name chief
The UK's Millennium & Copthorne Hotels is expected to announce it has appointed Mr John Wilson, formerly chief operating officer of Hilton International, as chief executive. His departure from Ladbroke, which owns Hilton International, was announced last week. Page 18

Companies in this issue		
ABB	20, 17	Granada
AIT Group	16	HITEC
Aerospatiale	17	Heidelberger Zement
BA	8	Hongkong Telecom
BCP	20	IBM
BPA	20	Kone
Bank Austria	19	Linde
Cable and Wireless	17	Millennium & Cop
Candy	6	Nomura Securities
China Telecom	17	OTE
Christiana	19	Peapod
Creditanstalt	19	SGL Carbon
Dai-ichi Kangyo Bank	1	SGS-Thomson
Dassault Aviation	17	Stagecoach
Dai-Men	5	Stat
Eni	16	Storebrand
Gas Natural	19	Telecom Serbia
Gazprom	5	Telefonica

Market Statistics		
Bond lending rates	24	London record issue
Company meetings	12	London share service
Dividend payments	12	Managed funds service
FTSE-100 World Indices	21	Money markets
FT Guide to currencies	22	New and bond issues
Foreign exchanges	24	World Stock Market indices

ABB to cut jobs in western Europe

By Stefan Wagstyl and Bill Hall

ABB, the Swiss-Swedish engineering group, is to shed thousands of jobs in western Europe over the next five years in a renewed drive to increase efficiency, cut costs and spread its manufacturing operations around the world. The company hopes to create similar numbers of posts in emerging economies, including India, China and eastern Europe, to take advantage of lower labour costs and get closer to customers in local markets. Mr Göran Lindahl, ABB's new chief executive, said the company's growth would come mainly

Group seeks growth in emerging markets

from emerging economies. The prospect of further reductions in the western European workforce of one of Europe's most successful companies comes amid government concern over unemployment. Mr Tony Blair, the British prime minister, last week gave a fresh impetus to the debate by urging continental leaders to pursue more flexible labour market policies. Mr Lindahl, who took over this year from Mr Percy Barnevik, said that maintaining the company's total payroll at

today's level of about 215,000 would depend on reaching an ambitious growth target for annual order intake of \$50bn by 2001, compared with \$36bn last year. The size of the workforce would depend on how much capacity the market could support, he said. Mr Lindahl indicated jobs would be reduced in western Europe and North America even if the target were achieved because of the need to change the group's geographical balance. By 2001, about half of ABB's staff

would be in emerging economies, compared with one-third today, he said. This implies a reduction of between 20,000 and 30,000 jobs. ABB's record suggests it will try to achieve cuts by voluntary means. Mr Lindahl declined to say where the reductions might fall. The biggest concentrations of staff in the industrialised world are in Germany, with 31,000, Sweden, with 26,200, and Switzerland, with 11,400. A further 20,400 work in the US. Mr Lindahl's plans are a con-

tinuation of the strategy pursued by Mr Barnevik, now non-executive chairman, who argued that ABB could prosper in global markets only by expanding in developing countries. In 1990-96, ABB's total payroll has stayed roughly constant, but staff in western Europe and north America have dropped from 174,000 to 143,000, while employment elsewhere has risen. Mr Lindahl said growth prospects were particularly good in Latin America, followed by the Middle East, southern Africa, and central and eastern Europe.

The top line, Page 20

Optimism on French air merger despite election

By David Owen in Paris

Aerospatiale, the French state-owned aircraft, space and defence group, is optimistic its planned merger with Dassault Aviation will go ahead in spite of the recent election of a Socialist-led government.

Mr Yves Michot, Aerospatiale's chairman, said he was "relatively optimistic that the merger will take place". He acknowledged, however, that he had not discussed the issue with the country's new industry and defence ministers.

The defeat of the centre right in the general election this month has cast doubt on the deal since the Socialists are thought unlikely to consent to the privatisation of Aerospatiale, as envisaged by the government of Mr Alain Juppé, the former prime minister. If there is no privatisation, Mr Serge Dassault, Dassault's chairman, is expected to be less keen on the merger.

During last month's election campaign, Mr François Hollande, then the Socialist party's chief spokesman, said the Aerospatiale-Dassault merger "must take place with a majority of public capital". He said the Socialists wanted to "maintain public control" of the defence industry.

The Aerospatiale chairman said the two groups had made good progress in determining how a merged entity would be structured. He said the two groups had "even started to think about" strategy on certain projects.

Many observers expect the change of government in France to further delay the restructuring of the European defence industry. In addition to the question mark over the Aerospatiale-Dassault deal, it is widely assumed the planned privatisation of Thomson-CSF, the defence electronics giant, will be scrapped in spite of the final bids made by Alcatel and Lagardere, the two contenders in the last month.

Aerospatiale executives also indicated they expected helicopter operations to break even in 1997. Last year, the activity contributed an operating loss of FF224m (\$38m), although the entire group returned to net profit of FF612m after a net loss of FF1981m in 1995.

UK group prides open door to huge mainland telecommunications market

China deal could be jewel in C&W crown

By Alan Cane in London and John Ridding in Hong Kong

In sealing a deal with the Chinese government last week, Cable and Wireless, the UK's second-largest telecommunications group, has prised open the door to the tough but potentially huge mainland market.

The agreement could change the balance of power in the \$600bn-a-year telecoms services industry, reinforcing C&W's appeal to suitors through what Mr Richard Brown, its chief executive, described as its "long-term partnership" with China.

It marks the latest and potentially most significant move by mainland-backed companies to take stakes in Hong Kong industries before the territory's return to Chinese sovereignty. They had already invested in the power and aviation sectors.

Industry analysts cautioned that in telecoms, as in other industries, there is a large gap between potential and profits in the mainland market, and that foreign investment in telecoms services remains barred. But they said the deal, concluded on Friday evening between Mr Brown and Mr Wu Jichuan, the Chinese minister of posts and telecommunications, gave C&W an edge.

"There are only six in 100 households with telephone lines, so it is a market where even a toehold is attractive," said one telecoms analyst. "C&W has emerged as the preferred international partner."

C&W's foothold in the Asia-Pacific region through its majority shareholding in Hongkong Telecom, Hong Kong's only full service telecoms operator, already makes it an attractive partner for other carriers. British Telecom communications made an unsuccessful takeover bid last year, for example.

This looks like a coup for Mr Brown. In exchange for a 5.5 per cent stake in Hongkong Telecom for which the Chinese will pay \$1.2m, the UK group will have the opportunity "to penetrate the high growth telecommunications market in China".

The deal is not exclusive. Mr Brown said no telecoms operator could expect exclusive entry to the Chinese market

HK telecom issue 'in demand'

Plans to list China Telecom (Hong Kong) are likely to meet with strong demand from Hong Kong and international investors, according to investment bankers in the territory, writes John Ridding in Hong Kong.

The issue, to be managed by Goldman Sachs, according to bankers in Hong Kong, would be the latest in a series of "red chip" offerings. These listings of mainland-backed companies have seen record subscription levels over recent months, fuelled by the prospect of asset injections from Chinese parent companies. "China Telecom (Hong Kong) would offer only direct telecoms investment in China," said Mr Lloyd Fischer, head of regional telecoms research at RZW in Hong Kong. RZW is advising C&W. Other analysts cautioned that delicate regulatory issues would have to be resolved before assets could be injected into the Hong Kong vehicle. Foreigners are not allowed to own equity in or to operate telecoms services in China.

China Telecom (Hong Kong) is the Hong Kong subsidiary of China Telecom, the operating arm of China's Ministry of Post and Telecommunications, Cable & Wireless, the UK company, is set to be the major telecommunications investor. There is pressure to move ahead quickly with a listing given market sentiment.

"but it is as close to exclusive as you can get".

It is a first phase which could see C&W reduce its stake in HKT to about 30 per cent in exchange for expansion opportunities on the mainland. For now, however, C&W retains a majority stake in HKT - which provides more than 60 per cent of its profits - and removes the uncertainty surrounding its main asset. The parent will only sell down, insists Mr Brown, if shareholder value is enhanced.

For Mr Brown, appointed C&W chief executive a year ago, the problem had been how to reconcile his desire to retain a majority stake in HKT with Chinese reluctance to allow foreign majority ownership of a strategic company on its territory. A series of visits to Beijing seems to have paid off. The company insisted there was no political pressure to reach a deal. "This bodes extremely well for a smooth transition for Hong Kong," said Mr Rod Olsen, C&W deputy chief executive.

The key to the accord was China Telecom, the operating arm of the Ministry of Post and Telecommunications and the dominant operator on the mainland with more than 60m subscribers. It will hold the initial 5.5 per cent stake, tightening China's grip on Hongkong Telecom as China Everbright, a Beijing-backed conglomerate, already has a 7.7 per cent stake.

In exchange, C&W will have the opportunity to invest in China Telecom (Hong Kong), a subsidiary established to develop activities in Hong Kong and China. The business is expected to be listed within the next six months.

While the opportunities are vast, so are the uncertainties. Much will depend on how the first phase of the partnership with the Chinese works. Mr Brown is adamant that there is no compulsion or commitment to lower C&W's stake in HKT below 50 per cent. As to projects in China, "we have specific ideas about the future".

At least as important is how and when China Telecom (Hong Kong) will be able to invest in China. As a Hong Kong company, it faces regulatory obstacles in participating in mainland projects. Solutions, according to Mr Gautam Kapoor at ING Barings, include the building of networks in exchange for a share of revenue streams. Others suggest mobile networks as an area for expansion, while one telecoms analyst said regulations could be amended to treat Hong Kong companies as domestic investors. Whether or not the partnership bears fruit, analysts argue this is a watershed for C&W. Either it is the partnership which gives it the lead in potentially the world's largest telecoms market or the deal which sees the jewel in its crown slipping away.



Richard Brown: no single telecoms operator could expect exclusive entrance to the Chinese market but the deal with Beijing was 'as close to exclusive as you can get'

This announcement appears as a matter of record only.

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ING BARINGS

Amsterdam, June 1997

COMPANIES AND FINANCE

End in sight over MMC merger reports

By Ross Tienan

Mrs Margaret Beckett, the UK trade secretary, is poised to end months of delay to three proposed mergers, by publishing the findings of Monopolies and Mergers Commission inquiries into their impact upon competition.

Reports upon the proposed merger of Bass Breweries with Carlsberg-Tetley, a combination of some ferry operations by the Peninsular and Oriental Steam Navigation Company and Stena Line, and

the takeover by Klaus J Jacob Holding of Société Centrale D'Investissement et Associés are likely "sooner rather than later," according to industry executives.

Investigations into all three deals were completed before the UK general election on May 1. But publication of the conclusions was left to the incoming secretary of state because of the sensitivity of the findings.

If allowed, the proposed takeover of Carlsberg-Tetley by Bass Breweries will enable Bass to leapfrog Scottish &

Newcastle to become the UK's biggest brewer, with 35 per cent to 40 per cent of the beer market.

Shares in Bass fell 19p on Friday to 754p (£12) amid fears that the deal, agreed last August, could dilute earnings.

Mr John Beaumont, of brokers Merrill Lynch, expects the government may oblige Bass to sell 1,000 pubs as a condition of any merger approval. "There has to be a question mark over whether or not Bass would want to go ahead with the deal if

there are onerous conditions attached".

But another analyst suggested Bass might choose to divest its portfolio of 1,400 tenanted pubs to complete the merger. "They want the cash flow to underpin other deals, such as the possible purchase of William Hill [the bookmaker]," he said.

Brokers also expect the proposed link-up between P&O and Stena on routes that compete with the Channel tunnel to win approval. "It has got to be cleared," said one. "There is massive

over-capacity in that market, thanks to Eurotunnel. In some ways it is surprising that there should be any ferry companies left."

On Wednesday, the competition directorate of the European Commission is expected to signal that it is willing to allow the deal, provided concerns over marketing are met. The merger has already been approved by French authorities.

In a third report, the MMC examined a deal that would lead to concentration in the supply of chocolate used to

coat biscuits and sweets.

Mr Klaus Jacob, the Swiss financier, has agreed through a subsidiary Callebaut to acquire the holding company of the French-based Barry group. Callebaut has a subsidiary in Banbury, Oxfordshire, while Barry's UK operation is based in Chester.

Both Callebaut and Barry are leading international independent suppliers of chocolate, and it is estimated that together they would control up to 13 per cent of the world cocoa bean crop.

Stagecoach may bid for NZ bus group

By Chris Gresser

Stagecoach, the acquisitive UK bus and rail company, is considering bidding for a bus operation in Auckland, New Zealand.

This would bolster the company's presence there and enable it to expand more aggressively into the Pacific Rim, including Australia and Vietnam, and to explore joint ventures when the Chinese market opens up.

Stagecoach's renewed interest in the region comes as expansion opportunities in its home market have dwindled, because of the rapid consolidation of the bus market.

Mr Brian Souter, executive chairman, yesterday confirmed that Stagecoach would be interested in bidding for Auckland's Yellow Bus Company, which is being sold by Auckland regional services trust. It is thought it could command a £30m-£40m price tag, on annual revenues of £30m.

Stagecoach's New Zealand businesses already include 180 buses in Wellington, 50 in the Hutt Valley and a further 100 in Auckland itself. Commenting on the Yellow Bus, Mr Souter said: "We're taking business off them at the moment."

Stagecoach's Pacific Rim operations are growing strongly, with revenues up

27 per cent in 1996 to £15.4m, with an operating profit margin of 20.1 per cent.

In the UK, however, where Stagecoach has some 17 per cent of the bus market, passenger growth is far more subdued.

Stagecoach, floated in 1993 with a market value of just £134m (£216m), is now capitalised at £1.64bn. Its swift growth has been fuelled by aggressive expansion.

It snapped up more than 40 bus companies following deregulation of the market.

But Mr Souter has said UK bus companies are now looking expensive. The company could also face competition issues if it sought to expand its share of the market much more. The sector has been repeatedly investigated by Office of Fair Trading, and Stagecoach has been the subject of some 20 competition investigations.

Given the constraints on its home turf, the company was the first to take advantage of opportunities in Europe. Last September, it stepped in with the £115.6m acquisition of Swedibus, the largest bus operator in the Nordic region.

The group had net debt of £235.2m at the half year in November, including the £545m securitisation of lease payments due to Fortreb, its railway leasing company.

Millennium expected to appoint Hilton chief

By Chris Gresser

Millennium & Copthorne Hotels is expected to announce that it has appointed Mr John Wilson, formerly chief operating officer for Hilton International, as its new chief executive.

Mr Edouard Gremlich, who oversaw the Millennium & Copthorne flotation last year, announced his plans to step down as chief executive three months ago.

The UK company said he wanted to return to the US to spend more time with his Boston-based family.

Mr Wilson's departure from Ladbrooke, which owns Hilton International, was

announced last week. Neither Ladbrooke nor Millennium & Copthorne would comment further yesterday.

Millennium & Copthorne said in March it would look for "someone to drive the organic growth more".

The company had grown rapidly through acquisition, but now believes that prices for hotels in London and New York are looking "stiff".

Mr Wilson, 55, has spent 25 years at Hilton. He was made chief operating officer in charge of running Ladbrooke's 162 Hilton hotels six years ago. Ladbrooke may not replace him, as decisions relating to the hotels are

now taken jointly with Hilton Hotels Corporation of America.

HHC and Ladbrooke unveiled a wide-ranging alliance last year under which the two companies are reuniting the Hilton brand across the world.

Millennium & Copthorne was floated last April and its shares have risen by 37.4 per cent from their issue price of 273p to Friday's closing price of 382p. The company owns or operates 23 hotels and has a 42 per cent stake in The Plaza Hotel in New York. Three months ago, it reported maiden 1996 pre-tax profits of £39.3m, up from £24m on turnover of £179.2m.



Garf Collins: most of the £10m expected proceeds will go to directors and employees

AIT float tag up to £25m

By Paul Taylor

AIT Group, a UK software company specialising in systems for retail financial services organisations, is coming to market via a placing expected to value it at between £20m and £25m (£40m).

Most of the £10m expected proceeds will go to directors and employees, who are selling part of their stakes. The management team includes

Mr Garf Collins, chairman, and Mr Richard Hicks, managing director and founder. The £2m in new funds will enable the group to undertake larger projects and finance new facilities.

A pathfinder prospectus to be published this week is expected to show pre-tax profits in the year to March 31 increased to £1.6m (£1.1m) on revenues of £10.7m (£7.5m).

AIT, which was founded

in 1986 and now employs 150 people, has developed a flexible software package known as TSS. This enables it to build customised applications integrating mainframe computers with on-screen systems including customer kiosks. It has developed systems for clients including KeyCorp, in the US, and National Westminster Bank.

Greig Middleton is both sponsor and broker.

HTEC flotation to make £22m value

By Chris Gresser

HTEC, the UK concern that develops software and hardware for loyalty card promotions, is coming to market via a placing of shares that is expected to value the group at up to £22m (£35m).

The flotation, scheduled for next month, will raise up to £10m, of which £7m will

be used to redeem preference shares and the balance for capital expenditure.

The eleven-strong management team holds 22 per cent of the preference shares and will receive £1.5m for their stake.

The management also holds 51 per cent of the ordinary shares. The rest is held by venture capitalists 3i and Gresham Trust.

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This is particularly valuable in the Impenetrable Forest, Uganda, where indigenous hardwoods take two hundred years to mature. The *Markhamia* trees planted by WWF and local villages can be harvested within five or six years of planting.

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WWF sponsors students from developing countries on an agroforestry course at UPZA University in Costa Rica, where WWF provides technical advice on growing vegetable and grain crops.

Unless help is given, soil is exhausted very quickly by "slash and burn" farming methods.

New tracts of tropical forest would then have to be cleared every two or three years.

This unnecessary destruction can be prevented by combining modern techniques with traditional practices so that the same plot of land can be used to produce crops over and over again.

In La Planada, Colombia, our experimental farm demonstrates how these techniques can be used to grow a family's food on a small four hectare plot. (Instead of clearing the usual ten hectares of forest.)

WWF fieldworkers are now involved in over 100 tropical forest projects in 45 countries around the world.

The idea behind all of this work is that the use of natural resources should be sustainable.

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Write to the Membership Officer at the address below to find out how you can help us ensure that this generation does not continue to steal nature's capital from the next. It could be with a donation, or, appropriately enough, a legacy.



WWF World Wide Fund For Nature

International Secretariat, 1196 Gland, Switzerland.

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COMPANIES AND FINANCE

INTERNATIONAL NEWS DIGEST

Book-building starts for OTE

Book-building will start today for the Dr270bn-320bn (\$981m-\$1.18bn) issue of 10-12 per cent of OTE in the second tranche of Greece's partial privatisation of its telecoms operator. The challenge for the global co-ordinators - National Bank of Greece, Salomon Brothers and HSBC - is to keep alive the interest of international institutions following a rapid rise in OTE's share price on the Athens stock exchange.

OTE shares have featured prominently in a bull run that pushed the index to record levels last month. The share closed at Dr6,985 on Friday, down from the record Dr7,770 reached earlier in the week but still considerably higher than the Dr6,000-6,300 price range envisaged when the offering was being structured three weeks ago.

The share price is being driven by small investors keen to participate in a six-for-80 rights issue later this month. The issue will be restricted to old shareholders and will be sold at a 16 per cent discount to the secondary offering price. The stock is trading at a price/earnings ratio of 16.9 and the consensus among analysts is that OTE's earnings will grow at 16-20 per cent over the next three years.

Greek banks that will underwrite the domestic tranche have reported strong interest among retail investors ahead of the official pre-registration period later this week. State-owned Ionian Bank has already announced a special loan facility for customers ordering OTE shares.

Karin Hope, Athens

Threat to merger recedes

Prospects for Mr Kjell Inge Røkke, the Norwegian entrepreneur, to block the planned merger of Storebrand, Norway's largest insurer, and Christiania, the country's second-largest bank, appear to have receded after Aker RGL, the industrial group Mr Røkke controls, sold most of its 6 per cent stake in Storebrand.

The sale was prompted by a ruling by Norway's financial supervisory authority which lumped Aker's stake with that of Mr Røkke, who has a 10 per cent holding in Storebrand. Under Norwegian rules, a single shareholder cannot hold more than a 10 per cent stake in a financial institution.

Aker said it forced it to dispose of its shares, but it has purchased a buy-back option in the event that its appeal to the finance ministry against the supervisory authority's ruling succeeds. It sold 21m preference shares on Friday for Nkr13.30 per share, reducing its stake to below 1 per cent. Mr Røkke is believed to object to the Storebrand-Christiania merger but has not stated if he intends to try and block it.

Greg McIvor, Stockholm

Kone falls into the red

Kone of Finland, the world's third-largest lift and escalator producer, veered into the red in the first four months of 1997 as "exceptionally poor" price levels took a heavy toll on margins. Kone incurred a Fm19m (\$3.66m) pre-tax loss, compared with a Fm17m profit a year earlier, in spite of an increase in turnover from Fm3bn to Fm3.4bn. It said it expected no growth in the European market for new lifts and price levels would not improve. In the US, however, order volume and profitability were continuing to develop favourably. Full-year profits would be "only somewhat" higher than the Fm124m of last year.

Kone said newly-introduced products and a production reorganisation came too late to affect interim profits. It stressed that profitability of orders received had begun to improve. Orders, exclusive of lift maintenance business, rose from Fm2.6bn to Fm2.8bn, lifting the order book from Fm7.2bn to Fm8.4bn. The operating loss was Fm19m, compared with a Fm18m profit last time.

Greg McIvor

SGL Carbon shares slip

SGL Carbon, the world's biggest producer of carbon and graphite products and lately the darling of the German stock market, has become embroiled in a price-fixing probe, prompting a sharp fall in its shares on Friday before they recovered slightly.

US and European authorities have launched an investigation into allegations of anti-competitive practices, including price fixing, in the graphite electrode industry. SGL Carbon and other rivals in the US and elsewhere, have been investigated. SGL Carbon, which was spun off from Hoechst, the chemicals group, last year, denied there were any concrete allegations against it.

Graham Bowley, Frankfurt

Telefónica in deal on Tisa

Telefónica has secured a compromise agreement with the Spanish government that will allow it to secure outright ownership of its subsidiary Tisa, the main foreign operator in Latin America, which is 34 per cent state-owned. The telecoms group wanted a straight acquisition of the Tisa equity it did not own, while the government, hoping to realise greater income from the disposal, planned to sell its stake through a competitive tender. Under the compromise, Telefónica is likely to be the sole prospective buyer in the tender, which is scheduled for next month, because the government has agreed to let the telecoms group match the highest bid made for the Tisa shares.

Telefónica is anxious to complete the Tisa purchase because its profitable subsidiary was at the centre of a strategic agreement it signed in April with Concert, the alliance of British Telecommunications and MCI of the US. Telefónica plans to sell some 10 per cent of Tisa to MCI and to take a 33 per cent stake in Avantel, a carrier in Mexico that controlled by the US operator.

Tom Burns, Madrid

Spanish gas group expands

Gas Natural Latinoamericana of Spain has won control of the most important Colombian gas distribution company, Gas Natural. The sale of just over 50 per cent of Gas Natural's shares by Ecopetrol, the Colombian petroleum company, brought in \$180m, about three times as much as had been expected.

Sarina Kendall, Bogotá

FT/S&P World Indices

The committee that oversees the FT/S&P Actuaries World Indices has decided to alter the timing of quarterly changes in constituents. Changes in stocks, which until now have taken place at the end of each quarter, will in future occur at the end of the month after the quarter end. This will help fund managers avoid making constituent changes at times of reduced market liquidity, such as around new year.

The new policy, agreed at a quarterly meeting in New York last week, will occur from the quarter ending in September, with constituent changes taking effect in October. The meeting also agreed to constituent changes covering stocks in Austria, Belgium, Canada, France, Italy, Spain, Switzerland, Thailand and the UK.

Details from FTSE International in London on 44 (0)171 448 1810. Web site: <http://www.ftse.com>

Bank Austria to raise Sch3bn

By William Hall in Zurich

Bank Austria's preference shares fell more than 5 per cent on Friday after the company announced it was issuing Sch3bn (\$246.5m) of new shares at a record low price of Sch376 each and at a steep discount to the group's book value.

Bank Austria's preference share issue, to help pay for its Sch1.2bn acquisition of Creditanstalt, Austria's second-biggest bank, has been hit by accusations about its level of disclosure to the international investment community.

The accusations come at a sensitive time for the bank, as its two biggest shareholders - the Austrian government and AVZ, a foundation controlled by the city of Vienna -

want to sell large stakes. Fetching the best price depends on encouraging international investors to participate in the share offerings.

Bank Austria's relations with the international investment community have been marred by poor communications and the erratic disclosure of sensitive information. The latest row centres on a little publicised 1995 deal where Germany's Westdeutsche Landesbank bought a 10 per cent stake in Bank Austria.

It emerged last week that the deal also included the first right of refusal to buy a further substantial stake in Bank Austria through the purchase of AVZ shares.

WestLB is believed to have paid Sch700 per Bank Austria ordinary share, a premium of roughly two-

thirds to the much more widely traded preference share.

The details of its right to buy AVZ's shares were disclosed in the small print of a prospectus but most stock market analysts were not aware of the share purchase option until it was publicised by Austria's opposition parties last week.

Bank Austria's attempts to sell itself to the international investment community as an independent European regional bank with a good restructuring story will be damaged if it emerges that it could end up as the Austrian affiliate of a state-owned German bank.

Sources close to Bank Austria stress that WestLB's right of first refusal on the AVZ shares was designed to protect its position in

joint ventures rather than give it ultimate control of Bank Austria.

Bank Austria is more than doubling the number of preference shares in issue by selling 6m shares at a discount of 10 per cent to Thursday's closing price of Sch416. Shareholders will be offered seven new preference shares for every 57 held.

Based on analysts' expectations, the shares are being issued at nine times 1997 earnings and a discount of 15 per cent to book value. Bank Austria's preference shares, which reached a high of Sch600 in 1993, fell Sch22.5 to Sch393.5 on Friday.

The Austrian government had hoped that the sale of Creditanstalt to its biggest competitor would end the political bickering over the future of Austria's two biggest banks.

Belgrade cancels telecoms signing

By Guy Dinmore in Belgrade

The Serbian government yesterday called off the signing of an agreement to sell a combined 49 per cent stake in state-owned Telecom Serbia to Italy's Stet group and OTE, Greece's state-controlled telecommunications operator.

No official explanation was given for the last-minute cancellation of the signing ceremony.

A participant in the talks said "technical" details had held up an agreement. "Things will be on track fairly shortly. It's nothing momentous," he said. One diplomat said the deal could be signed today.

Serbian officials have kept silent during months of talks with Stet and, more recently, with OTE. A Greek official said last week that OTE would take a 20 per cent holding in Telecom Serbia and Stet would buy a 29 per cent stake, for a total of DM1.57bn (\$900m).

The deal would mark the largest sale of Serbian state assets in a faltering privatisation programme.

US online grocery store to go public

By Jane Martinson in New York

Peapod, the online-grocery store and delivery service, is expected to go public this week with an estimated value of up to US\$244.8m.

The group will join a small but rapidly growing band of Internet retailers to list on the US stock market. It is also one of a series of high-profile listings which have lifted a relatively quiet market for initial public

offerings this year.

Its performance will be particularly closely watched after Amazon.com, the online book store, listed on the technology-driven Nasdaq composite index a month ago. After an impressive start, the company has traded below its offer price.

Peapod is to issue 3.5m new shares on Nasdaq at between \$13 and \$15 a share. The top price will value the Illinois-based company at US\$244.8m. The group,

which was set up by two brothers in 1989, made a net loss of \$9.57m last year on revenues of \$29.17m.

The founders, Mr Andrew Parkinson and Mr Thomas Parkinson, now senior group chief executives, will retain 20.4 per cent of Peapod after the IPO - a stake valued at about \$49m. Several venture capital groups will retain shares in the company.

WPP, the advertising group, also owns a stake. Mr Dan Rabinowitz, director of finance, said that after two weeks of meetings with potential institutional investors, the IPO is "likely to happen" this week. The roadshow is set to end in Boston tomorrow.

Peapod had 43,000 members based in six US cities at the end of March. Membership has more than tripled since January. Of the cities in which the group operates - Chicago, San Francisco, Columbus, Boston, Houston and Atlanta - four have

opened since last September. It estimates that its service area encompasses 5 per cent of US households. Peapod intends to use the deal's net proceeds - some \$45.7m - for working capital and expansion into new markets.

Several analysts said last week that the performance of Amazon.com was unlikely to dent enthusiasm for Peapod. Mr Ryan Jacob, of IPO Value Monitor, said: "I would expect Peapod to do quite well."

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\$120 million

Aleve
Valuation opinion to The Procter & Gamble Company and Roche Holdings.

Carson, Inc.
\$59 million IPO

Clarins S.A.
\$162 million LYONIS Offering

The Colgate-Palmolive Company
Medium Term Notes

The Estée Lauder Companies Inc.
\$458 million IPO
\$379 million Secondary

The Gillette Company
Acquisition of Duracell
\$7 billion

Henkel KGaA
Acquisition of Novamex Technologies
\$187 million

Kellogg Holdings, Inc.
Sale to Brunswick Corporation

Kendall-Kearns Roberts & Co.
Acquisition of Spalding & Evenflo

Nu Skin Asia Pacific, Inc.
\$236 million IPO

Kimberly-Clark Corporation
Sale of certain tissue mills and license of Solenis facial tissue brand

Raychem Corporation
Recapitalization with The Phoenix H. Lee Company
\$327 million

Revlon, Inc.
\$180 million IPO

Samsontec Corporation
\$161 million Secondary

S.E. Dupont
\$69 million IPO

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Viglen Technology plc

(Incorporated in England and Wales under the Companies Act 1985, Registered No. 2837675)

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of up to 122,285,668 ordinary shares of 10p each

Provided that the Scheme described in the documents sent to shareholders on 6th June, 1997 becomes effective, Viglen Technology plc will be the holding company for Viglen Limited and Anstrut plc.

Share capital immediately following the Introduction

Number	Amount	Expected maximum issued share capital
176,000,000	£17,600,000	122,285,668
	ordinary shares of 10p each	212,288,567

Listing particulars were published on 6th June, 1997 and copies are available during normal business hours on any business day from the Company Announcements Office, London Stock Exchange Tower, Capel Court Entrance, off Bartholomew Lane, London EC2R, for collection only, up to and including 10th June, 1997 and during normal business hours on any business day up to and including 23rd June, 1997 from:

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COMPANIES AND FINANCE

Promoting the top line at ABB

New chief executive aims to inject greater commercial energy into the group

If Mr Goran Lindahl, the new chief executive of ABB, the Swiss/Swedish engineering group, is daunted by the challenge of following in the footsteps of Mr Percy Barnevik, his highly regarded predecessor, he does not show it.

"Percy Barnevik has done a fantastic job," he says. "And my ambition is to build an even better company."

Mr Lindahl, who is 52, says he plans to impose his own personality on ABB just as Mr Barnevik did during his nine years at the helm. He takes over after a long career in engineering marketing, which culminated last year in the signing of the contract for the US\$5m Bakun hydro-electric scheme in Malaysia, ABB's biggest ever order.

Unlike Mr Barnevik, an economist by training who was marked out for high office at an early age and will stay on as non-executive chairman, Mr Lindahl has had to work his way up to the boardroom.

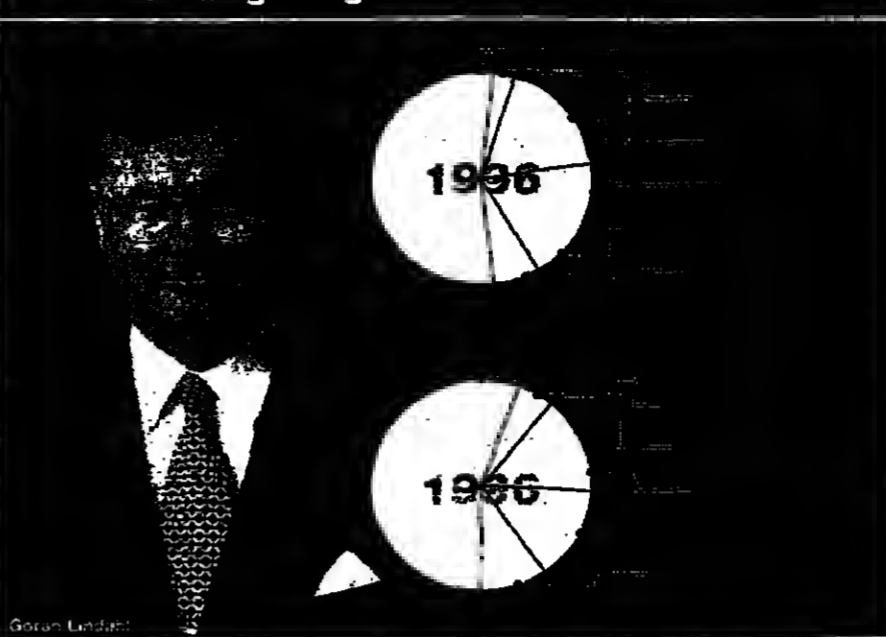
Where Mr Barnevik tends to dominate those around him through sheer force of intellect, Mr Lindahl is more down to earth and more of a team player.

Mr Barnevik, who formed ABB out of a merger of Sweden's Asa and Brown Boveri of Switzerland in 1988, spent much of his time shaping the unified company - closing excess capacity, building a managerial and financial structure and expanding its reach outside western Europe.

Mr Lindahl seems to see his job as putting more commercial energy into this formidable machine. Where Mr Barnevik put much emphasis on long-range planning, Mr Lindahl is more concerned about bringing home the bacon.

"My priority is to promote the top line. Then, the bottom line will also grow. Sell, sell, sell," he says.

ABB: extending the global reach



But the two men also have much in common. Neither is a stranger to the constant international travel which is required at a company with 215,000 employees in 1,000 subsidiaries in over 140 countries.

Both are Swedish and both have spent most of their working lives with companies linked to the Wallenberg family, which controls 16 per cent of ABB, the single biggest stake.

Time will tell whether Mr Lindahl can emerge from Mr Barnevik's shadow. His first real test may not come until next year, when ABB's profits are expected to start growing again as a result of economic recovery in Germany. If they do not, investment could demand changes in direction.

Mr Pierre Tissot, analyst at Lombard Odier, the Geneva bank, says: "It is too early to notice any changes in strategy, but there are differences in style. Barnevik stressed the long-term perspective and focused on macroeconomic factors. Lindahl, by contrast, is more down to earth and focused on our needs."

Although Mr Lindahl shares Mr Barnevik's view that the company's future growth will come mainly from emerging economies, there is a slight change in emphasis.

Where Mr Barnevik spoke repeatedly about the importance of eastern Europe, the former Soviet Union, and east Asia, Mr Lindahl puts Latin America at the top of his list for growth markets, though he adds that Asia remains very important.

The new chief executive has set a demanding target of increasing the annual order intake from \$36bn last year to \$50bn in 2001. Without such an increase, ABB's workforce may have to be reduced, he says, since productivity has to keep on increasing if ABB is to compete successfully.

Mr Lindahl has fixed targets for ABB's margins, which have been under pressure in recent years because of competition from other international companies including Germany's Siemens and GE of the US. The difficulties are particularly acute in power engineering, where margins have been squeezed by overcapacity.

Mr Lindahl declines to say what his margin targets are, but he wants to see a substantial improvement on last year, when operating profits amounted to just 8.8 per cent of sales. However, with a return on equity of 22.3 per cent, the shareholders would not, for the moment at least, have cause for complaint.

Mr Lindahl plans to continue Mr Barnevik's strategy of expanding ABB's manufacturing operations in developing countries, while reducing the workforce in western Europe and north America. Partly, it is a matter of seeking low-cost production and partly, building strong local businesses in growing markets, says Mr Lindahl.

Mr Lindahl expects to see growth across all the company's activities, including power generation, electricity transmission and distribution, industrial plant and buildings and financial services. "Of course, some will grow more, some less," he says.

In developed countries, where large new industrial investments are rare, he expects to see growth from service and renovation contracts. There are also good prospects in fields where new technology is being introduced - for example in electricity metering and distribution equipment.

In the developing world, the oil, gas, and petrochemical industries are placing substantial orders, such as the \$500m contract for India's first private-sector oil refinery at Jamnagar.

Mr Lindahl is acutely aware of the concern such big schemes generate among environmentalists, not least because of the criticisms made by pressure groups of the Bakun project. But he says that abstaining from economic development "is not a solution". For example, the availability of electricity is a basic need for people all over the world.

However, companies such as ABB have a responsibility to meet high environmental standards with their products, wherever they are supplied, says Mr Lindahl. "Of course, we should not sell crap anywhere."

He also welcomes debate with environmental groups because "it forces people to sharpen their arguments. So we will find better solutions for processes and products."

But he says ABB can only supply what its customers order. It cannot change the world on its own. "We can only do what's in our competence."

Stefan Wagstyl
and Bill Hall

BCP issue to finance bank stake

By Peter Wise in Lisbon

Banco Comercial Português, Portugal's second-largest bank, is to make a big international placement of subordinated debt to help finance an E\$77bn (\$441m) acquisition that will increase its stake in Banco Português do Atlântico from 50.1 to 75.1 per cent.

The agreed purchase of 27.5m shares from Imperio, the insurer, could have been delayed for three years. It is seen as an indication that BCP's turnaround of BPA, a leading retail bank, is progressing more rapidly than expected.

BCP said the acquisition would not require a share capital increase. It would be made using available capital resources and through the issue of subordinated perpetual bonds, which count as Upper Tier Two capital for calculating the group's solvency ratio.

Analysts agreed the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. BCP has a track record of funding pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Imperio, BCP acquired BPA in 1995 to become Portugal's biggest private-sector financial group.

Heidelberg Zement expands

By Graham Bowley in Frankfurt

Heidelberg Zement, Germany's biggest cement producer, has beaten international competition to buy controlling stakes in two Bulgarian cement plants, its first in the country.

"The company, which is the world's fourth-largest supplier of cement, will tell its shareholders at its annual general meeting on Thursday that it is in negotiations to pay the Bulgarian government approximately \$25m for the plants, together with a commitment to contribute up to \$25m of further investment."

Heidelberg already has plants in Poland, the Czech Republic and Hungary. Last year it made its first push into Turkey and southern China.

Heidelberg - which has annual revenues of more than DM6bn (\$3.47bn) - is also looking at possible acquisitions in Romania as part of its drive into central and eastern Europe and at potential purchases in Russia, but has so far decided the market is too risky.

"Bulgaria is the next development in our international diversification," said one official. "We want to be in markets where we expect high growth."

Heidelberg already has plants in Poland, the Czech Republic and Hungary. Last year it made its first push into Turkey and southern China.

In 1993, Heidelberg acquired CBR, the Belgium-based cement producer, a move that doubled its size, with extra plants in western Europe and western areas of the US and in Canada. The company is now exporting cement from the Turkish plant to markets such as the US.

In Bulgaria, Heidelberg is expected to take a 51 per cent stake in a plant at Zlatna Panega in north-central Bulgaria, and a 75 per cent stake in the much smaller Granitoid plant in south-western Bulgaria.

Mr Rolf Hülstrunk, chief executive, said the company was in the final round of

negotiations on the final details of the sale.

The Bulgarian government awarded Heidelberg the stakes in the plants over competing bids from other cement companies from Greece and Switzerland, and from another big cement producer in Germany.

According to local press reports, a further two plants in Bulgaria are also due to be privatised.

As well as news of the purchases, Mr Hülstrunk is expected to tell the group's annual shareholder meeting this week that turnover is forecast to grow 5 per cent this year after 7 per cent growth last year.

Linde foresees profit from China

By James Harding in Xiamen

Linde, the world's leading supplier of forklift trucks, expects its recently opened China operations to report its first profits by 1999.

The German company, whose only non-European manufacturing site is in Xiamen, southern China, forecasts that the Chinese factory will achieve sales of Yn600m (US\$72.2m) in 1997 but continue to report losses over the next two years.

Mr Dagobert Nolte, vice-general manager of Linde-Xiamen, said: "We are not too concerned about our red figures. There have been substantial starting difficulties... as there always are in such cases. It is not easy to enter the China market, but it is very promising."

Linde has invested approximately DM200m (\$116m) since it agreed in 1994 to open the factory in Xiamen, which started full production last year and "has the chance to break even, if not next year, then in 1999".

The factory produced approximately 2,000 industrial trucks in 1996 and the company aims to sell 3,000 trucks in 1997. Linde says it needs to sell 4,000-5,000 units to achieve profitability.

The chief difficulty for Linde has been penetrating a competitive market, where local manufacturers offer forklift trucks for less than half the price of German models and Japanese companies have established successful sales networks.

Mr Nolte also says it has been hard to convince poten-

tial Chinese buyers of the labour-saving benefits of forklift trucks, given that local labour costs are so low.

However, the company expects the market to grow substantially over the next 10 years and plans to raise the Xiamen factory's capacity from 5,000 trucks per year to 15,000 trucks.

"The hunger for good quality in the field of industrial products will certainly grow," said Mr Nolte, but he adds that Linde will wait until it has achieved profitability before investing further in expanding capacity.

Linde, the only foreign company manufacturing material handling trucks in China, last year raised its stake in the Xiamen joint venture to 70 per cent, leaving 30 per cent in the hands

of its Chinese partner, Xiamen Heide Corporation.

In the past five years, Linde has eased its reliance on the German domestic market and is increasingly driven by foreign sales, which now account for nearly two-thirds of turnover.

The group, which includes engineering, refrigeration, industrial gases and material handling divisions, reported 1996 sales of DM2.8bn compared with DM2.2bn in 1995 and pre-tax profits of DM689m against DM620m.

Linde opened an industrial gas facility in Xiamen two years ago and plans to open another factory nearby later this year. The company also has an engineering joint venture in Dalian, north-east China.

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ING BARINGS

MARKETS

THIS WEEK

At Home in Emerging
and Capital Markets

ING BARINGS

Global Investor / Peter Martin

Corporate restructuring marks time

For the past few years, continental Europe's stock markets have benefited from investors' belief that big companies are restructuring themselves to give better value to shareholders. Does the swing in Europe's political mood indicate a threat to that trend?

The new French government is composed of people who have attacked Renault's job cuts. Unemployment in Germany continues to rise, and the prospects of a Social Democrat victory in next year's elections grows more likely as the government bumbles the Maastricht test. Even Britain's New Labour has been sounding suspiciously Old Labour at times in the past week.

As Morgan Stanley's Mr

David Roach has argued, workers who have seen the industrial balance of power tilted against them have only one recourse: through the ballot box. Though newly elected left of centre governments cannot stop the restructuring process, they can slow it down, and help mobilise opinion against it.

So, is restructuring now on hold? No, says Mr Gary Dugan of J.P. Morgan, because the crude job cutting phase of European restructuring is now largely over. "Slashing the workforce is a thing of the past," he says. "The type of restructuring we see now is the search for 'corporate clarity'." In this process, companies focus their investment on their core businesses, and spin off peripheral activities.

Shareholders claim greater control over the cash flows of the companies they own, limiting managers' discretion to spend on low return activities.

Still, in a number of countries, this type of restructuring requires the assistance of the state. And, though it may be less hurtful than job cuts, it may still fall victim to politics. For example, Germany has been planning a reform of corporate law which will give greater emphasis to shareholders and ease the distribution of capital, two steps which will accelerate the restructuring of big companies. But the proposal has been trapped in political wrangling in Bonn. It is easy to imagine it falling victim to the new mood of the times and the coalition

struggle for survival. It may also be overly optimistic to believe that the continent's need for measures which hurt the workforce - job cuts or reductions in the share of output going to labour - is past. Mr Richard Young of Goldman Sachs argues that a typical developed-economy company could produce a return on equity of between 50 per cent and 80 per cent by moving its production to emerging economies.

That is a crude figure; it needs to be adjusted to allow for higher transport costs and political risk. Still, when you consider that German manufacturing businesses are currently achieving a return on equity of less than 10 per cent, the scope for huge gains in profitability by

shifting production abroad is clear. The long term implications for the German workforce, in job losses or reduction in the share of national income, are also clear.

In the short run, however, the European mood indicates a deep desire to delay that adjustment. And there is scope for a momentary pause, as economic growth picks up in both France and Germany. Restructuring was accelerated, in both countries, by the pressures of a strong currency. In recent months, that has been eased by the rise in the dollar.

Now there is an increasing likelihood that the problems of the Maastricht convergence process will usher in a weak euro. If companies no longer feel the same currency threat, restructuring

may become less urgent. If that immediate threat eases, the psychological factor comes into play: just how much management enthusiasm for the restructuring process do continental companies really possess? The domestic political climate affects bosses as well as workers. As the mood shifts, perhaps companies will do as little restructuring as they can get away with?

Mr Dugan believes that European shareholders are following the lead of their US equivalents, and claiming greater control over the cash flows of the businesses they own. If that is so, then whatever managers' preferences, they will have no choice but to continue the restructuring process.

Still, it would not be surprising if there were to be a pause in the pace of restructuring efforts as managers assess the political and social climate. In the long run, competitive pressures from abroad and shareholder pressures from closer to home make continued restructuring inevitable. But in the short run, continental stock markets which have risen in anticipation of an imminent shift towards a

Total return in local currency to 05/06/97

	US	Japan	Germany	France	Italy	UK
Cash	0.11	0.01	0.08	0.06	0.13	0.12
Week	0.47	0.05	0.27	0.28	0.58	0.53
Month	0.05	0.09	0.47	4.23	8.47	6.31
Bonds 3-5 year	0.51	0.89	0.48	0.55	0.82	0.34
Week	0.80	-0.45	0.30	0.39	1.16	0.23
Month	7.06	3.71	7.78	8.67	15.45	8.83
Bonds 7-10 year	0.83	0.71	1.07	1.01	1.23	0.80
Week	0.88	-0.40	0.08	0.09	1.57	0.27
Month	7.58	7.16	11.7	12.20	22.80	13.27
Equities	0.1	0.7	1.0	4.3	0.3	-1.9
Week	1.9	2.9	3.9	0.6	-0.8	2.5
Month	26.2	-7.0	44.4	30.2	20.8	23.4

Source: Cash & Bonds - Lehman Brothers. Equities - FT/SE Index Ltd. The FT/SE Actuaries World Indices are jointly owned by FT/SE International Limited, Goldman Sachs & Co. and Standard & Poor's.

Strong advance expected at Raisio

Raisio Group, the Finnish food processor and chemicals group which has invented a "magic margarine" that reduces cholesterol levels in the body, is expected on Thursday to report profit after financial items in the range of FM58-80m (\$15.4m) for the four months to April, up from FM38.3m a year earlier.

While the bulk of both sales revenue and operating profit stems from the group's established operations - chemicals for the forestry industry, foodstuffs and animal feeds - observers will be mainly interested in any

new developments in the cholesterol-cutting Benecol margarine.

But the Benecol discovery - which sent Raisio's share price rocketing ahead amid expectations of tremendous growth potential - is not yet expected to break even, and some investors could be inclined to sell the stock if the earnings report fails to contain new indications of concrete steps to develop and market the product.

AFX-News, Helsinki

■ Kemira Oy, a large Finnish chemicals group, is expected today to report profit after financial items in the range of FM290-420m (\$81m) for the four months to April, compared with FM477m a year earlier.

The relatively wide range of forecasts is mainly due to uncertainty over when certain items will be booked during the year, especially

regarding the timing of deliveries by Kemira Agro, the agricultural division, analysts said.

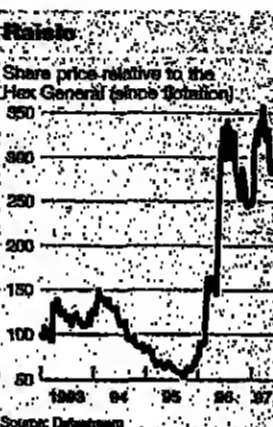
The analyst providing the lowest estimate of FM290m said his calculation was based on the assumption that many of Kemira Agro's deliveries to which were intended to take place in the first four months of the year have been shifted to the second quarter.

The results are expected to confirm the company's warning in April that Kemira Agro's weak sales growth and tight price competition in Central Europe pushed profits significantly lower.

AFX-News, Helsinki

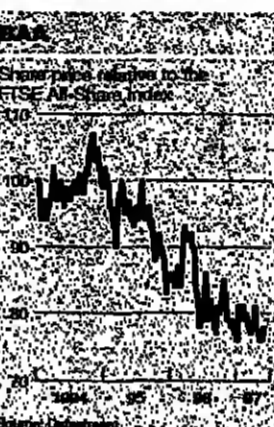
■ Royal Ahold, a Dutch supermarket chain, is expected to report on Wednesday first quarter net profit up at between F120-253m (\$130m) from F138.4m a year earlier.

Mr Nils van Elzelingen, an



analyst at NIB Securities, noted that the figures were strongly influenced by acquisitions, adding 50 per cent to sales, while Ahold's expansion in Asia is estimated to result in a negative contribution to operating profit of F10m (F12m).

Mr Van Elzelingen said higher efficiencies, expansion



in fast-growing markets and positive currency translation effects would be the main driving forces behind earnings growth.

AFX-News, Amsterdam

■ BAA, the airports group, announces full-year results today with pre-tax profits expected to be \$406m,

(\$660m) compared with \$418m last time. The fall is the result of the group's announcement in April that profits would be reduced by \$25m because of a change in accounting policy. The group will no longer be capitalising interest on the proposed Heathrow fifth terminal until planning permission has been received. The group is likely to be questioned about how long it expects the inquiry to delay much-needed expansion at Heathrow.

■ After Dairy Crest last week, the other leading dairy companies are reporting annual profits this week. Unigate today and Northern Foods tomorrow, with Robert Wieman and Milk Marque on Wednesday.

Life has been tough in the commodity dairy products business, but Unigate is expected to have made up

for lower profits there with improvements in its fresh foods, bacon and distribution activities.

Disposals have generated enough cash to turn interest payable into receivable, and pre-tax profits are expected to rise from £118.8m to £122m (\$199m) after exceptional items.

Similarly, Northern Foods will have seen dairy profits down by perhaps £15m, offset by a strong performance from prepared foods. Overall profits are expected to edge up from £124.2m to £127m (\$207m), before a small exceptional credit. Both are due to raise their dividends by 4 or 5 per cent.

■ Granada Group, the television and leisure company, is expected to report on Wednesday underlying pre-tax profits of between £232m and £239m (\$390m) for the six months to March 31,

against £183m last time. The rise comes on the back of good television advertising revenue and strong trading in hotels.

The company is likely to turn the spotlight on its media activities by detailing plans for the division including pay television and programming strategy.

■ Hyder, the Welsh-based multi-utility is expected to report today a 28 per cent increase in pre-tax profit to £215m (\$350m) for the year ended March 31. It is also forecast to pay a net dividend up 14 per cent at 44p per share. As most of the sector unwinds dividend cover down towards twice covered, Hyder's cover will still remain closer to three times. The group has energetically pursued savings arising from its merger of Welsh Water with South Wales Electricity.

INTERNATIONAL EQUITIES BY SALES REGION

Positive interest in convertibles

A flurry of convertible bond issuance in recent weeks has fuelled hopes that the sector might be undergoing a revival.

The two most prominent deals came from Japan and were issued by banking groups Sumitomo and Toyo. Both were denominated in yen - ¥100bn and ¥50bn respectively.

"Until last year, we used to see at least one major Japanese transaction every quarter," said a syndicate manager in London. "This supply dried up earlier this year when the Japanese bond market fell, but the mood has certainly turned more positive recently."

Bankers are predicting more deals in the near future, with Japan expected to continue leading the pack. "If you are a truly global investor, you have to have money in Japan," said one banker. "And bank deals are quite attractive."

Because banks account for a large part of the Topic share index, investing in equity-linked securities from the banking sector is seen as a good proxy for tracking the index itself.

Activity, however, is not limited to Japanese issuers. Europe has also seen its share of supply. Last week Swissair launched a deal in the domestic market. Earlier, British Land was active with a £300m issue, as was AGF, the French insurer.

A large deal is soon expected from Telefonica, the Spanish telecoms company, for up to \$750m (\$460m).

"An environment in which bond yields are falling and equities are rising is favourable for convertible bond issuance," said an official at SBC Warburg, joint lead manager of the recent deal by Toyo Trust and Banking. Bankers also highlighted several factors supporting demand. Lack of supply in

the first quarter was one. Analysts at Goldman Sachs said supply during the first three months was just sufficient to cover redemptions of existing issues.

Another favourable factor was that during the 1996 equity rally, which has extended into this year, some convertible bonds have shown better performance than underlying equities.

Also, convertibles continue to be seen as the best defensive instruments for investors who feel that shares have risen too fast, but can not risk missing out should the rally continue.

This combination of bullish factors has allowed more innovations in the sector. These include special features such as mandatory conversion, through which the proceeds qualify as tier-1 capital for regulatory purposes, re-settable conversion prices, credit-enhanced issues and zero-coupon convertible bonds.

In this favourable environment, bankers are optimistic that issuance will continue at a lively pace in coming months.

Japanese banks are expected to remain important in this market, as they reinforce their capital base, eroded in recent years by bad loans to the property sector.

In Europe, convertible bonds are increasingly seen as a convenient medium for privatisations.

"This is a sector where we will continue to see primary market activity in the next year or two," a continental European banker predicted. However, most analysts agree that a strong correction in other financial markets could weigh on demand. The worst case scenario, one banker warned, would be "a major bear market in bonds spilling over into equities... It would put an end to it all."

FT/SP ACTUARIES WORLD INDICES

The FT/SP Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International Limited and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries, NewWest Securities Ltd, was a co-founder of the indices.

	US Dollar	Swg	Yen	DM	Local	Local %	Gross Div.	US Dollar	Swg	Yen	DM	Local	Local %	Gross Div.
	Index	Index	Index	Index	Index	31/12/96	Yield	Index	Index	Index	Index	Index	Index	Yield
Australia (79)	231.53	4.5	210.93	168.84	208.10	202.74	9.1	232.17	211.07	169.82	208.69	202.89	234.57	188.44
Austria (24)	175.41	2.9	178.03	142.50	175.54	175.57	15.5	195.63	177.55	142.52	175.84	175.78	200.22	174.70
Belgium (29)	249.96	8.7	227.63	182.21	224.58	219.73	23.2	247.28	224.50	182.73	222.56	217.65	254.56	208.70
Brazil (20)	268.53	42.1	246.55	196.55	242.25	232.99	48.7	247.86	240.85	193.97	237.91	222.72	289.59	182.89
Canada (112)	238.18	10.2	180.58	152.54	198.02	209.87	11.3	205.08	190.08	152.75	167.83	206.28	206.45	154.12
Denmark (22)	362.55	8.7	348.55	278.09	343.88	342.51	21.3	381.49	348.79	278.98	342.87	341.55	390.15	293.76
Finland (29)	269.57	9.7	245.59	186.59	242.20	239.89	23.8	257.45	243.14	185.39	240.39	261.22	278.84	186.57
France (91)	222.59	4.0	202.78	162.32	200.07	203.74	18.7	220.52	200.49	161.01	198.21	201.75	222.34	188.94
Germany (59)	213.78	12.5	194.77	153.50	192.16	192.16	25.2	212.89	193.38	155.38	191.17	191.17	216.00	188.29
Hong Kong (56)	321.55	2.9	278.25	300.41	409.88	512.61	3.0	295.82	477.76	383.82	472.85	522.45	528.88	407.55
Indonesia (27)	241.13	5.5	219.69	175.84	216.74	359.53	8.7	238.89	217.61	173.11	215.44	357.38	-	-
Ireland (18)	344.11	4.8	313.50	250.94	309.30	329.32	18.2	341.21	310.20	249.27	306.59	324.00	360.09	270.88
Italy (58)	88.04	5.5	80.21	64.20	76.14	111.88	18.1	82.66	80.24	64.48	79.33	111.95	94.32	73.26
Japan (185)	133.87	3.7	121.98	97.82	120.53	97.82	5.1	134.05	121.87	97.83	120.49	97.93	159.25	107.57
Malaysia (107)	337.79	10.9	308.95	362.13	483.53	520.09	-11.4	354.34	485.77	380.37	480.28	517.85	660.85	510.10
Mexico (27)	1478.52	21.2	1346.73	1077.67	1328.67	1292.06	23.1	1477.55	1343.27	1079.44	1328.07	1283.75	1478.47	1110.25
Netherlands (18)	378.69	12.7	345.01	278.18	340.39	336.12	28.6	378.29	345.04	274.90	338.22	354.09	382.16	278.89
New Zealand (14)	31.28	-0.4	31.28	88.54	62.14	70.53	2.5	30.84	85.21	60.14	61.58	70.03	85.60	75.84
Norway (41)	313.29	6.0	283.42	228.49	281.80	304.76	10.0	310.89	282.45	228.98	279.26	302.16	321.23	246.04
Philippines (21)	165.11	-18.8	150.48	120.45	145.48	217.22	-16.9	169.15	150.77	120.57	152.03	222.90	-	-
Singapore (42)	265.34	-8.3	258.35	268.84	353.55	259.05	-4.3	265.80	268.01	267.99	263.96	259.18	448.01	360.08
South Africa (14)	262.37	13.8	230.13	294.25	265.71	383.10	9.1	240.22	277.40	263.16	323.77	352.69	370.12	301.49
Spain (25)	255.40	16.2	232.88	186.25	225.06	262.87	30.6	251.22	229.20	184.97	226.71	270.05	262.42	171.91
Sweden (49)	455.42	7.8	414.50	322.11	405.34	525.22	23.2	453.30	412.10	381.18	407.44	519.87	467.81	394.35
Switzerland (29)	257.79	24.1	248.75	215.82	285.14	266.30	34.1	283.23	286.58	214.23	263.57	263.09	299.90	230.41
Thailand (43)	81.53	-35.7	56.16	44.94	52.39	57.45	-36.7	64.30	58.54	47.04	57.88	58.96	175.58	56.78
United Kingdom (212)	297.78	5.2	271.30	217.18	287.59	271.30	10.6	284.50	267.14	215.40	267.29	267.74	263.18	229.83
USA (650)	347.59	15.2	316.88	253.48	312.41	347.59	15.2	341.83	310.25	269.30	307.33	341.93	347.59	254.79
World Index (2471)	347.59	10.6	225.95	180.78	222.82	218.74	13.2	345.52	223.21	179.37	220.68	217.57	247.90	202.32
World Index (2471)	347.59	10.6	225.95	180.78	222.82	218.74	13.2	345.52	223.21	179.37	220.68	217.57	247.90	202.32

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CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Jan 8	Closing mid-price	Change on day	60/90 day spread	Day's mid low	One month	Three months	One year	Bank of England
Europe	10.8201	-0.0027	945 - 957	10.8039	10.7672	10.7498	10.7498	3.2
Austria	90.0349	-0.1401	898 - 799	89.8920	89.7790	89.7790	89.7790	3.2
Belgium	10.7227	-0.0034	108 - 106	10.7193	10.6980	10.6972	10.6972	2.9
Denmark	8.4467	-0.0193	888 - 846	8.4274	8.4330	8.4330	8.4330	3.2
France	2.5136	-0.0001	128 - 146	2.5137	2.5137	2.5137	2.5137	3.2
Germany	4.4717	-0.0006	632 - 603	4.4686	4.4701	4.4701	4.4701	3.2
Greece	1.2684	-0.0038	948 - 861	1.2646	1.2646	1.2646	1.2646	3.2
Ireland	2.77145	-0.0014	274 - 276	2.7700	2.7700	2.7700	2.7700	3.2
Italy	58.0349	-0.0001	58 - 58	58.0349	58.0349	58.0349	58.0349	3.2
Luxembourg	3.1848	-0.0007	584 - 584	3.1841	3.1841	3.1841	3.1841	3.2
Netherlands	1.1848	-0.0022	583 - 713	1.1824	1.1848	1.1848	1.1848	3.2
Norway	284.300	-0.7287	287 - 287	283.570	283.570	283.570	283.570	3.2
Portugal	205.015	-0.100	205 - 147	204.915	204.915	204.915	204.915	3.2
Spain	12.6785	-0.0014	717 - 623	12.6749	12.6749	12.6749	12.6749	3.2
Sweden	2.2610	-0.0007	596 - 623	2.2593	2.2593	2.2593	2.2593	3.2
Switzerland	1.4442	-0.0002	434 - 449	1.4439	1.4439	1.4439	1.4439	3.2
UK	1.17714	-	-	1.17714	1.17714	1.17714	1.17714	3.2
USA	1.6285	-0.0042	261 - 268	1.6243	1.6243	1.6243	1.6243	3.2
Argentina	1.7455	-0.0042	448 - 460	1.7413	1.7413	1.7413	1.7413	3.2
Canada	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	3.2
China	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	3.2
India	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	3.2
Japan	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	3.2
South Korea	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	3.2
Taiwan	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	3.2
Thailand	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	3.2

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 8	Closing mid-price	Change on day	60/90 day spread	Day's mid low	One month	Three months	One year	JP Morgan
Europe	12.1675	-0.0004	664 - 666	12.1630	12.1451	12.1451	12.1451	2.2
Austria	95.8800	-0.010	400 - 400	95.8600	95.8600	95.8600	95.8600	2.2
Belgium	6.8225	-0.0008	815 - 835	6.8150	6.8150	6.8150	6.8150	2.2
Denmark	5.1902	-0.0017	864 - 909	5.1725	5.1725	5.1725	5.1725	2.2
France	5.5500	-0.0002	340 - 360	5.5475	5.5475	5.5475	5.5475	2.2
Germany	1.7250	-0.0002	286 - 291	1.7225	1.7225	1.7225	1.7225	2.2
Greece	2.7515	-0.0035	110 - 120	2.7480	2.7480	2.7480	2.7480	2.2
Ireland	1.4888	-0.0018	851 - 865	1.4870	1.4870	1.4870	1.4870	2.2
Italy	1.73225	-0.0018	447 - 450	1.7304	1.7304	1.7304	1.7304	2.2
Luxembourg	3.1848	-0.0007	584 - 584	3.1841	3.1841	3.1841	3.1841	2.2
Netherlands	1.1848	-0.0022	583 - 713	1.1824	1.1848	1.1848	1.1848	2.2
Norway	284.300	-0.7287	287 - 287	283.570	283.570	283.570	283.570	2.2
Portugal	205.015	-0.100	205 - 147	204.915	204.915	204.915	204.915	2.2
Spain	12.6785	-0.0014	717 - 623	12.6749	12.6749	12.6749	12.6749	2.2
Sweden	2.2610	-0.0007	596 - 623	2.2593	2.2593	2.2593	2.2593	2.2
Switzerland	1.4442	-0.0002	434 - 449	1.4439	1.4439	1.4439	1.4439	2.2
UK	1.17714	-	-	1.17714	1.17714	1.17714	1.17714	2.2
USA	1.6285	-0.0042	261 - 268	1.6243	1.6243	1.6243	1.6243	2.2
Argentina	1.7455	-0.0042	448 - 460	1.7413	1.7413	1.7413	1.7413	2.2
Canada	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	2.2
China	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	2.2
India	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	2.2
Japan	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	2.2
South Korea	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	2.2
Taiwan	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	2.2
Thailand	1.0107	-0.0009	517 - 535	1.0098	1.0098	1.0098	1.0098	2.2

WORLD INTEREST RATES

MONEY RATES							
June 6	Over night	One month	Three months	Six months	One year	Long term	Repo rate
Belgium	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
week ago	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
France	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
week ago	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
Germany	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
week ago	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
Ireland	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
week ago	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
Italy	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
week ago	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
Netherlands	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
week ago	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
Spain	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
week ago	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
US	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
week ago	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
Japan	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50
week ago	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	3 1/4	2.50

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INVESTMENT TRUSTS - Cont[illegible]

Wages	70.2	1.2	0.05
Hourly Expenses	70.2	1.2	0.05

[illegible]

Product Type	112	14	-
Volume	265	17	-

[illegible]

Smaller Cos	4	734	1	2.10
Warrants	-	48	11	-

[illegible]

that asked values supplied by Flightlist (excepted L
is a guide only. See guide to London Share Service

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Capital	181	0.3	=
Warrants	184	-	-
Street Bond	171	-	-

Company	2007 Revenue	2007 Profit	2007 EPS	2007 P/E	2007 Dividend	2007 Yield	2007 Beta	2007 Market Cap
1. McDonald's	10,000	1,000	1.00	10.0	0.50	5.0%	0.8	100.0
2. Coca-Cola	8,000	800	0.80	8.0	0.40	4.0%	0.7	80.0
3. Microsoft	6,000	1,200	1.20	12.0	0.60	6.0%	0.9	120.0
4. Amazon.com	5,000	500	0.50	5.0	0.20	2.0%	1.2	50.0
5. Google	4,000	1,000	1.00	10.0	0.30	3.0%	0.6	100.0
6. Facebook	3,000	300	0.30	3.0	0.10	1.0%	1.5	30.0
7. Twitter	2,000	200	0.20	2.0	0.05	0.5%	1.8	20.0
8. LinkedIn	1,500	150	0.15	1.5	0.02	0.2%	2.0	15.0
9. YouTube	1,000	100	0.10	1.0	0.01	0.1%	2.2	10.0
10. eBay	800	80	0.08	0.8	0.00	0.0%	2.5	8.0
11. Netflix	700	70	0.07	0.7	0.00	0.0%	2.8	7.0
12. Hulu	600	60	0.06	0.6	0.00	0.0%	3.0	6.0
13. Pandora	500	50	0.05	0.5	0.00	0.0%	3.2	5.0
14. Spotify	400	40	0.04	0.4	0.00	0.0%	3.5	4.0
15. SoundCloud	300	30	0.03	0.3	0.00	0.0%	3.8	3.0
16. Last.fm	200	20	0.02	0.2	0.00	0.0%	4.0	2.0
17. Bandcamp	150	15	0.015	0.15	0.00	0.0%	4.2	1.5
18. iTunes	100	10	0.01	0.1	0.00	0.0%	4.5	1.0
19. Amazon Music	80	8	0.008	0.08	0.00	0.0%	4.8	0.8
20. Apple Music	60	6	0.006	0.06	0.00	0.0%	5.0	0.6
21. Spotify Premium	40	4	0.004	0.04	0.00	0.0%	5.2	0.4
22. Pandora Plus	30	3	0.003	0.03	0.00	0.0%	5.5	0.3
23. SoundCloud Go	20	2	0.002	0.02	0.00	0.0%	5.8	0.2
24. Last.fm Pro	15	1.5	0.0015	0.015	0.00	0.0%	6.0	0.15
25. Bandcamp Pro	10	1	0.001	0.01	0.00	0.0%	6.2	0.1
26. iTunes Plus	8	0.8	0.0008	0.008	0.00	0.0%	6.5	0.08
27. Amazon Music Unlimited	6	0.6	0.0006	0.006	0.00	0.0%	6.8	0.06
28. Apple Music 1	4	0.4	0.0004	0.004	0.00	0.0%	7.0	0.04
29. Spotify Premium Duo	3	0.3	0.0003	0.003	0.00	0.0%	7.2	0.03
30. Pandora Premium	2	0.2	0.0002	0.002	0.00	0.0%	7.5	0.02
31. SoundCloud Premium	1	0.1	0.0001	0.001	0.00	0.0%	7.8	0.01
32. Last.fm Premium	0.5	0.05	0.00005	0.0005	0.00	0.0%	8.0	0.005
33. Bandcamp Premium	0.2	0.02	0.00002	0.0002	0.00	0.0%	8.2	0.002
34. iTunes Premium	0.1	0.01	0.00001	0.0001	0.00	0.0%	8.5	0.001
35. Amazon Music Premium	0.05	0.005	0.000005	0.00005	0.00	0.0%	8.8	0.0005
36. Apple Music Premium	0.02	0.002	0.000002	0.00002	0.00	0.0%	9.0	0.0002
37. Spotify Premium Family	0.01	0.001	0.000001	0.00001	0.00	0.0%	9.2	0.0001
38. Pandora Premium Family	0.005	0.0005	0.0000005	0.000005	0.00	0.0%	9.5	0.00005
39. SoundCloud Premium Family	0.002	0.0002	0.0000002	0.000002	0.00	0.0%	9.8	0.00002
40. Last.fm Premium Family	0.001	0.0001	0.0000001	0.000001	0.00	0.0%	10.0	0.00001
41. Bandcamp Premium Family	0.0005	0.00005	0.00000005	0.0000005	0.00	0.0%	10.2	0.

Henderson Eurotrust	147	-4	2.0	Ac
Units	195	-5	2.0	Ac

Category	Value	Category	Value	Category	Value
1. Total	100.0	1. Total	100.0	1. Total	100.0
2.	2.	2.
3.	3.	3.
4.	4.	4.
5.	5.	5.
6.	6.	6.
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42.	42.	42.
43.	43.	43.
44.	44.	44.
45.	45.	45.
46.	46.	46.
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50.	50.	50.

Lloyds Share Life	100	0.4	4.11
1999	100	0.7	4.11

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FT GUIDE TO THE WEEK

MONDAY

9

Euro-currency gathering

European Union finance ministers meet in Luxembourg for the first time since the row between the German government and the Bundesbank over plans to revalue Germany's gold reserves and the socialist victory in France's elections. Both these events may threaten the timetable for a single European currency. Ministers will have the first opportunity to gauge the attitude of Mr Dominique Strauss-Kahn, newly-appointed French economics minister. They will also consider attempts by the European Parliament to soften the "stability pact" agreed at last December's Dublin summit and aimed at enforcing fiscal discipline in the future euro zone. It is due to be ratified at next week's Amsterdam summit.

Central bankers meet

The Bank for International Settlements (BIS), the umbrella organisation of the world's central banks, holds its annual meeting in Basel, Switzerland, attended by central bank governors from more than 100 countries. The meeting has no formal agenda, but it is almost certain to include European economic and monetary union and the difficulties of the Czech and Thai currencies. Governors will also discuss capital flows and financial liberalisation, and the challenges posed by emerging markets.

Caviar controls

Moves to protect sturgeon by controlling trade in caviar, a limited relaxation of the ban on ivory trade, and new curbs on timber trade are to be discussed when the 138 members of the UN Convention on International Trade in Endangered Species (Cites) meet in the Zimbabwean capital, Harare. More than 1,500 participants are expected to attend the two-week meeting. The liveliest debate is expected to centre on plans by three African states (Botswana, Namibia and Zimbabwe) to sell ivory to Japan to finance elephant conservation.

Japan-China trade talks

Japan's trade minister, Mr Shingi Sato, will be in China to hold talks with leaders on key trade issues and Beijing's bid to join the World Trade Organisation. An increasing number of Japanese companies are manufacturing in China and Mr Sato is expected to call for curbs on the activities of foreign companies operating in China to be eased.

Macedonian visit

Mr Kiro Gligorov, president of the Republic of Macedonia, pays a five-day



Test of endurance: The Le Mans 24-hour motor race takes place next weekend at the famous circuit in France

state visit to China to boost trade and economic ties. Earlier this year, China offered Macedonia a humanitarian aid package worth ¥10m (about US\$130,000). The package is aimed at reducing the economic burden on Macedonia created by Bosnian refugees and the financial loss caused by an economic sanction against Yugoslavia. China and Macedonia signed a trade and economic co-operation agreement in 1995.

Balkan co-operation

Foreign ministers from several Balkan countries - Greece, Turkey, Albania, Bulgaria, Romania, Serbia, Bosnia and Macedonia - discuss political and economic co-operation in the northern Greek city of Thessaloniki, which bills itself as a business centre for the region. The meeting will be the first high-level regional gathering since the break-up of Yugoslavia in 1991, but will not include Slovenia and Croatia, which no longer consider themselves part of the Balkans. Discussions will focus on confidence-building and reducing inter-ethnic tensions as well as trade and cross-border projects.

Indian contest

India's ailing Congress Party faces its toughest battle in decades today in what will be its first contested presidential election since 1977. Mr Sharad Pawar, 57, an influential former minister, is running against Mr Sitaram Kesri, 76, the incumbent leader. He joins Mr Rajesh Pilot and Mr A.R. Antilay, both former ministers and outspoken critics of Mr Kesri. Mr Kesri is expected to win but the fact the election is contested is seen as a blow to him since he had been seeking consensus for his re-election.

FT Survey

German Banking and Finance

Public holidays

Hong Kong, Taiwan

TUESDAY 10

Currency questions

Outgoing president of the European Monetary Institute, Mr Alexandre Lamfalussy, will answer questions from MEPs at the European parliament's plenary session in Strasbourg, which, like yesterday's ministerial meeting in Luxembourg, will be dominated by monetary union. MEPs will consider reports calling for greater democratic control - mainly through the parliament itself - over the European Monetary Institute and future European Central Bank on the operational framework for the single monetary policy, and on taxation policy in the euro zone.

Import quota move

India will present its plans for phasing out import quotas on up to 2,500 consumer goods to the World Trade Organisation's balance of payments committee. The move follows heavy pressure from the International Monetary Fund and WTO trading partners, which argue that India's healthy foreign exchange position means it can no longer justify trade curbs for balance-of-payments reasons. During the two-day meeting India and WTO members will try to reach agreement on a timetable for scrapping the quotas, which apply mainly to consumer electronics and textiles.

Indian vistas

"Visions of India - through Western Eyes", an auction of paintings of views of the sub-continent mainly by European artists during two centuries of British rule come under the hammer at Christie's in London today. Among the most costly paintings on offer is "A banyan tree at a Shiva Shrine", painted in 1789 by Thomas Daniell, which is expected to make up to £150,000. In the past such scenes were collected mainly by ex-colonialists. Now a new generation of Indian entrepreneurs is buying traditional Indian scenes.

Soccer

England plays Brazil in the Tournament of France, Paris

FT Surveys

International Gas, Brazilian Finance and Investment

WEDNESDAY 11

Disaster aid call

The International Federation of Red Cross and Red Crescent Societies publishes its annual World Disasters Report, a survey of issues and trends in humanitarian relief. The report highlights the increasingly important role of voluntary agencies in the delivery of aid and assistance, and calls for the development of international standards to improve the quality and accountability of humanitarian operations. The Geneva-based federation says 350m people a year will be affected by disasters by 2000, a figure that could rise to 500m.

Moroccan meeting

Mr James Baker, UN special envoy for Western Sahara and former US secretary of state, has invited representatives of the Moroccan government and the Polisario Front to a two-day meeting in London in a fresh bid to end the 20-year-old dispute. Mr Baker hopes to start stalled UN plans to hold a referendum on the future of the former Spanish colony, delayed by a row over who is eligible to vote.

Blair to meet Chirac

Mr Tony Blair, the UK prime minister, continues his round of meetings with European leaders with a trip to Paris for talks with Mr Jacques Chirac, the French president. Top of the agenda will be preparations for the European Union summit in Amsterdam later this month and the problems facing the timetable for monetary union. Mr Blair will be keen to assess the implications of the French left's triumph in last weekend's parliamentary elections, which will pit a socialist prime minister, Mr Lionel Jospin, against the conservative president.

FT Survey

FT Review of Telecommunications

Public holidays

Argentina, Hong Kong, Taiwan

THURSDAY 12

Scene One at the Globe

A replica of William Shakespeare's Globe, the theatre in which many of his plays were first performed, opens officially today on London's Bankside with a special performance before the Queen. The dream of the American actor, the late Sam Wanamaker, the Globe has taken more than 20 years to complete and has cost £22m. Artistic director Mark Rylance heads a team of actors which this season will be performing *Henry V* and *The Winter's Tale*, plus two lesser known plays of the late Elizabethan period.

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Indonesian car dispute

A meeting of the World Trade Organisation's dispute settlement body will hear second requests by Japan and the European Union for a dispute panel to rule on Indonesia's "national car" policy which they claim runs counter to international fair trade rules. Indonesia, which blocked earlier panel requests, cannot do so again. Once established, the panel has about six months to report its findings. Under the "national car" programme, Indonesia has given favourable tax and tariff treatment to cars produced by a joint venture involving the youngest son of President Suharto and Kia Motors of South Korea.

Golf

US Open (to June 15) Bethesda, Maryland

FT Surveys

FT Review of the Automotive Industry, Aerospace

FRIDAY 13

Boost to Japan's GDP

Japan is expected to announce higher-than-expected gross domestic product figures for the fiscal year ending March 31. Government officials recently said Japan's real economic growth for the fiscal year is likely to exceed the government's projection of 2.5 per cent due to strong economic data. A key factor was the consumer rush in the last fiscal quarter to purchase large items, including houses and cars, ahead of the April 1 increase in sales tax from 3 to 5 per cent.

FT Survey

Courier and Express Services

WEEKEND 14-15

Paris takes to the air

The Paris Air Show takes off at Le Bourget on Sunday (to June 22). The show has attracted more than 1,700 exhibitors from 42 countries and is expected to be visited by around 300,000 people. For the first time it will be host to national pavilions from Brazil and Moldova and to exhibits from Lithuania, Thailand and Brazil. The Russian Federation and Eastern Europe are providing a strong presence. The centrepiece of the Russian exhibits will be a part of the Alpha space station.

Croatian vote

Croatia goes to the polls on Sunday. President Franjo Tudjman, who led Croatia to independence from Yugoslavia in 1991, is widely expected to win a second term in the first round of voting against the former communist Zdravko Tomac, vice-president of the Social Democrat party, and Vlado Gotovac, leader of the Social Liberals. A second round of voting will be held if no candidate secures more than 50 per cent. Mr Tudjman, 75, was treated for stomach cancer in a US hospital last year and diplomats doubt that he will survive another five-year period in office.

Motor racing

Le Mans 24-hour race (14-15) and Canadian Grand Prix, Montreal, Sunday

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ECONOMIC DIARY

Other economic news

Monday: German retail sales in April, to be released some time this week, are bound to have remained weak, underlining the fragility of the economic recovery. The markets are looking for a year-on-year fall of between 1 per cent and 2 per cent.

Tuesday: French consumer confidence in May is expected to have been hit by high unemployment and the elections. The forecast indicator score is -33, unchanged from April.

Wednesday: UK unemployment in May is forecast to have fallen because of the strong economy. The markets are looking for a drop of around 35,000, which should reduce the official unemployment rate by 0.1 per cent to 5.8 per cent.

Thursday: UK retail price inflation in May is likely to be little changed from the government's 2.5 per cent target because of downward pressure on food and drinks prices and mounting costs.

Friday: US producer prices in May are expected to show little upward movement because of low energy prices. The markets are looking for a 0.7 per cent year-on-year rise in the headline rate.

Statistics to be released this week

Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual	Day	Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	9	UK	Apr industrial production**	1.6%	0.6%	US	9	US	M1 week ended 2 June	\$3.5bn	\$3.7bn
Mon	9	UK	Apr manufacturing output**	2.1%	1.4%	US	9	US	M2 week ended 2 June	\$3.3bn	\$3.8bn
Mon	9	UK	May producer price index input**	-6.7%	-10.5%	US	9	US	M3 week ended 2 June	Unchanged	\$3.0bn
Mon	9	UK	May producer price index output**	1.1%	0.6%	US	9	US	May monthly M2	-\$0.5bn	\$19.2bn
Mon	9	Canada	Q1 industrial capacity utilisation	85.0%	84.8%	US	9	US	Initial claims 7 June	325K	337K
Mon	9	UK	May British Retail Consortium retail survey		4.1%	Mexico	9	Mexico	Apr trade balance, final	\$109m	\$98m
Tue	10	Japan	Apr machine orders, ex-elect & ship**	1.2%	0.1%	Fr	10	Norway	May trade, excluding ships		NK7.2bn
Tue	10	France	May INSEE household survey	-31	-32	Jun 13	Italy	Apr industrial production**†	0.5%	0.7%	
Tue	10	Italy	Apr ex-EU trade balance	£3,200bn	£3,400bn	Italy	13	Italy	Apr industrial production** not†	4.3%	-3.6%
Tue	10	Canada	Apr motor vehicle sales*	-2.0%	8.5%	China	13	China	May trade balance	\$2.71bn	\$3.6bn
Tue	10	US	BOJ-Mitsubishi 7 June		-0.5%	US	13	US	May producer price index	0.1%	-0.6%
Tue	10	US	Fedbook 7 June		0.5%	US	13	US	May prod price index ex-food & energy	0.1%	-0.1%
Tue	10	Japan	Apr current account (IMF, NSA)	¥1,050bn	¥536bn	US	13	US	Apr business inventories	0.2%	0.5%
Tue	10	Japan	Apr trade balance (IMF, NSA)		¥567bn	US	13	US	Jun Michigan Sentiment Preliminary	108.0	105.2
Tue	10	Japan	Apr foreign bond investment†		¥393bn	France	13	France	May consumer price index prelim**	0.9%	0.9%
Wed	11	UK	May unemployment	-35K	-56K	France	13	France	May consumer price index prelim*	0.2%	0.0%
Wed	11	UK	Apr average earnings	4.5%	4.5%	France	13	France	Mar current account†	FF11.5bn	FF19.2bn
Wed	11	UK	Apr unit wages three month**	2.6%	2.6%	During the week...					
Wed	11	Sweden	Q1 gross domestic product**		1.8%	Spain	11	Spain	May registered unemployed	15.4%	15.6%
Wed	11	Canada	May raw materials price index* (adv)	-0.4%	-1.9%	Netherlands	11	Netherlands	Apr producer price index**	1.6%	2.2%
Thu	12	Switzerland	Q1 gross domestic product**	-0.4%	-0.6%	Germany	11	Germany	May first cost of living** West		1.3%
Thu	12	UK	May retail price index**	2.6%	2.4%	Germany	11	Germany	May cost of living**	1.6%	1.4%
Thu	12	UK	May retail price index ex-MIPS**	2.5%	2.5%	Germany	11	Germany	May wholesale price index*	0.3%	0.2%
Thu	12	US	May retail sales	0.4%	-0.3%	Japan	11	Japan	Q1 gross domestic product (SAAR)	4.7%	8.9%
Thu	12	US	May retail sales ex-motor vehicles	0.3%	-0.1%	*month on month, **year on year, †seasonally adjusted Statistics courtesy Standard & Poor's M&S					

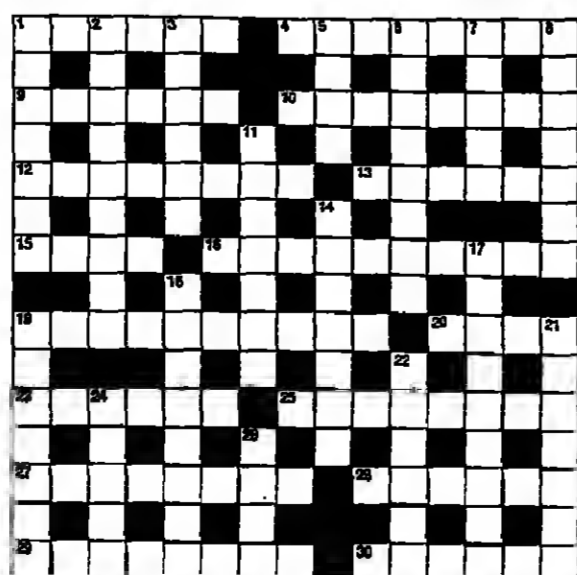
*month on month, **year on year, seasonally adjusted Statistics, courtesy Standard & Poor's I&MS

ACROSS

- Oxford accent (6)
- Second drink I have makes me frisky (9)
- Inform of tiny adjustment (6)
- Bowlers may hang around here, and that's strange (8)
- Purvis sort of hat style (3)
- Join a number in this place (6)
- Bring ship round in river (4)
- Still lacking subject for debate (10)
- Reprimanding and allocating new duties (7,3)
- Solid figure may take root (4)
- Disciplined for making wrong sound (6)
- Badly garbled direction to raise capital (6)
- Unwanted gas-pipes? (8)
- An alcoholic drink leads to a complaint (6)
- Fought against being declared redundant (8)
- The sound of a seal or swan (6)

DOWN

- Crew observed in cutter (7)
- Order in an hotel needs to be carried out at once (2,3,4)
- Fifty found out in the open (6)
- Scheme for north mountain ascent (4)
- As an occupant, I'd resent being put out (3)
- Not in the best of moods, I reckon (5)
- Objects about the French not finishing (7)
- Finished, being nothing less than painstaking (7)
- Not in the best of moods, I reckon (5)
- Children are given it in different forms (9)
- One may be for it in athletics (4,4)
- Ties the rest in knots (7)
- Graceful, with a gentle styling (7)
- Means it won't play a principal part (6)
- He introduces us to the girl (6)
- Small yet troublesome inflammation (4)



WINNERS 9,384: Michael Stiff, Leicester; Mrs M. Rothwell, Redditch; Steve Mitchell, Market Harborough; Pauline Wilson, Aylesbury

MONDAY PRIZE CROSSWORD
No.9,396 Set by DANTE

Six bottles of Davys Celebration Champagne for the first correct solution opened and three runner-up prizes of \$40 Davys food and wine vouchers redeemable in person or by post. These prizes are available only to winners living in England, Scotland and Wales. Winners with overseas addresses will receive a set of silver-plated place name bases and cards. Solutions by Thursday June 19, marked Monday Crossword 9,396 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday June 23. Please allow 28 days for delivery of prizes.

Name: _____
Address: _____

Solution 9,384

GOBLET FOOTLING
A ONE MOWA
SMUDGE KILLER
N A A A T A U
INDICATE PREPARE
E O V H A A N
ROVE FIVEVINTIGHT
E O A A V E
SCREENTEST LITA
P N E R O D
LIBERTIA TELEGRAM
N R F O A T
ADDITIONAL KIDDER
E O V A S E
FLAMINGO STAIR



Just to get rid of our cheap image.



To all those travelers in Europe who may have criticized us for not having blue leather seats in all classes: You'll be happy now. While this increases the value of your Swissair flight, we'd consider it cheap to ask higher fares. <http://www.swissair.com>

swissair world's most refreshing airline.

JOTTER PAD